

Social Security

*Software Specifications
and Edits for Annual Wage
Reporting--Tax Year 1997*



Changes to Note for Tax Year (TY) 1997

The following summarizes the significant changes to the TY 1997 instructions.

Taxable Social Security Wage Base: The taxable Social Security wage base increased to \$65,400. This change affects the standards, specifications and edits for Form W-2, boxes 3, 4 and 7. The rates for Social Security tax and Medicare tax remain 6.2 percent and 1.45 percent respectively (page 1).

Forms W-2c and W-3c: The mailing address for filing correction forms has changed (page 4).

Enumeration Verification System (EVS): A section on the Enumeration Verification System has been added to Chapter 1 (page 7).

Inquiries: The mailing ZIP code for the AWR Software Standards has changed (pages 9 and 111).

Preparing and Submitting Annual Wage Reports: For clarification, the term "12 pitch font" was changed to 12 characters per inch (page 12).

Extension to File Copy A: Information on extension of time to file Form W-2 (Copy A) has been included (pages 13 and 49).

Terminating Business: Clarification of when to file has been added (pages 13 and 49).

Chapter 3--W-2 Box e: Additional examples of compound surnames and single-letter prefix surnames have been added (page 21 and 22).

Advance Earned Income Credit (EIC): The maximum amount of the advance EIC increased to \$1326.00. This change affects the standards, specifications and edits for Form W-2, box 9 (page 29).

W-2 Box 13: Three new codes (R, S and T) were added to designate the entry of employer contributions to a medical savings account, employee salary reduction contributions to a simple retirement account and for employer provided adoption benefits (page 33).

Household Employers: All household employers, even those with only one household employee, must file Form W-3 with their 1997 Forms W-2 (page 37).

Form W-3--Boxes 13 and 14 have been eliminated: Entries are not needed for Adjusted total Social Security wages and tips (formerly box 13) and Adjusted total Medicare wages and tips (formerly box 14) (page 47).

Where to File: The mailing address for filing Forms W-3 and W-2 (Copy A) has changed (page 49).

When to File: Copy A of TY 1997 Forms W-2 and Forms W-3 must be filed with SSA by March 2, 1998 (page 49).

Appendix A: The magnetic media specialists' telephone numbers have been updated (page 109).

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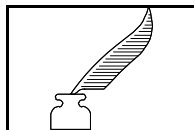
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INTRODUCTION



Wage Reporting and Social Security

Every time you issue a W-2, Wage and Tax Statement to one of your employees and send the corresponding form (Copy A) to the Social Security Administration (SSA), you contribute to the amount of Social Security benefits that will be payable one day to that employee or his/her family. That's because all Social Security benefits are based on earnings that you and other employers report to SSA.

Since November 24, 1936, when John Sweeney received the first Social Security number (SSN), SSA has issued more than 388 million numbers. These SSNs translate into a massive system of record keeping to update the records for each and every wage earner. You are an integral partner in this effort. Accurate reporting of W-2 information ensures that your employees and their families enjoy the protection of the Social Security benefits package your matching contributions help provide.



The Taxes You Pay

For 1997, the employee tax rate for Federal Insurance Contributions Act (FICA) is 7.65 percent. Of this rate, 6.2 percent is used to finance Social Security retirement, disability and survivors benefits. The remaining 1.45 percent finances the Medicare program. As an employer, you also pay FICA taxes matching that rate. In 1997, the wage base subject to the Social Security tax is \$65,400. Employees who earn more than that must continue to pay the Medicare portion of the FICA tax in wages with matching employer contributions. Beginning with TY 1994, there is no limit on the amount of Medicare wages and tips that are subject to Medicare tax.

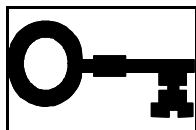


The Employee Benefit Package

Social Security may mean little more to you, the employer, than the matching taxes you pay to help provide retirement benefits for your employees. This however, is only part of the picture. In fact, Social Security means a lot more to your employees than just retirement and a lot more to you than simply paying taxes. When combined with other benefits you may offer to your employees, Social Security becomes part of a comprehensive "Benefit Package" which you invest in for your employees. Whether

your employees are full-time, part-time, seasonal or temporary, all Social Security wages and tips and Medicare wages and tips that are reported will increase any potential benefits. Here is an idea of the benefits you are helping your employees buy with your matching Social Security tax:

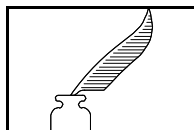
- o Retirement Insurance: Monthly benefits for retired workers as early as age 62,
- o Disability Insurance: Monthly benefits for people of all ages, including children, who have a severe disability;
- o Family Insurance: Monthly benefits for the spouses and children of retired or disabled workers;
- o Survivors Insurance: Monthly benefits for the widow or widower, and children, of a deceased worker; and
- o Medical Insurance: Benefits to help pay for hospital bills as well as limited coverage of skilled nursing facility stays, hospice care and other medical services.



Conclusion

You can see that accurately reporting your employees' W-2 information is a lot more than just a tax matter because it directly affects the eligibility for and amount of any Social Security and Medicare benefits payable to your employees and their families. That is why we continually emphasize the importance of recording the right employee name, SSN and wages for each of your employees. Apart from providing a valuable benefit to your employees, accurate wage reporting saves you from the productivity loss and administrative problems associated with correcting errors on W-2 forms. It can also save you from penalty assessments by the Internal Revenue Service (IRS) for inaccurate or late filing. To help improve the integrity of the wage reporting process, we compiled software standards, specifications and edits for use by employers and developers of wage reporting software.

CHAPTER 1 - GENERAL REQUIREMENTS



Purpose

This document prescribes standards, specifications and edits for software used to produce paper Form W-2, Wage and Tax Statement and paper Form W-3, Transmittal of Wage and Tax Statements. It provides employer human resource departments with guidance necessary to properly compile payroll data used to produce Forms W-2/W-3 and furnishes programmers with requirements for properly producing the physical W-2/W-3 forms. It also provides paper reporting examples which illustrate the most common types of wage reporting errors we are trying to prevent and the relationship between the data on Forms W-2/W-3 and Form 941, Employer's Quarterly Federal Tax Return. We encourage you to use software which complies with the standards, specifications and edits in this publication. By complying with these guidelines, you can help:

- o Improve the accuracy of wage records used by SSA to determine eligibility for and amount of Social Security and Medicare benefits;
- o Reduce resources used by the private sector and the Federal Government in administering the annual wage reporting process and later on in the SSA/IRS reconciliation process (when wage amounts reported to SSA and IRS are compared); and
- o Avoid penalties under the Internal Revenue Code for late or inaccurate employer wage reports.



Background

Since tax year (TY) 1978, employers have been required to submit Forms W-3 and Copy A of Forms W-2 directly to SSA for crediting employee wage records. Each year, a considerable number of reports require correction by SSA, causing either delays in posting data to employee wage records or problems in reconciling data between SSA and the IRS. **The most common errors are:**

- o **Omitting or using an invalid Social Security Number (SSN);**
- o **Omitting or using an invalid Employer Identification Number (EIN);**

- o **Omitting names on employee reports or using an inaccurate employee name that does not agree with the name on the employee's Social Security card;**
- o **Not submitting wage reports to SSA for various reasons, such as employers (1) going out of business and not submitting Forms W-2, (2) treating an employee as a self-employed "independent contractor", (3) overlooking the need to file wage reports for household work, or (4) not issuing Forms W-2 for wages under \$600;**
- o **Inappropriately submitting Forms W-2, instead of filing Form W-2c, Statement of Corrected Income and Tax Amounts, to correct previously reported wage data;**
- o **Submitting Forms W-2 (a) with the incorrect Tax Year (TY), (b) without an accompanying Form W-3 or (c) on nonstandard forms;**
- o **Submitting reports to the incorrect address (some employers send the W-2 statements to a State taxing authority, or to the IRS, and not to SSA);**
- o **Preparing paper W-2 forms which are not machine readable by SSA's scanning and imaging equipment; and**
- o **Creating out-of-balance conditions between Form W-2 amounts and either (a) Form W-3 summary totals or (b) the sum of the four quarterly Form 941 reports (either SSA or IRS must resolve reconciliation discrepancies between W-2 and 941 data with employers).**

When you inform IRS of correction(s) to previously reported Social Security or Medicare wage data (Form 941c, Supporting Statement to Correct Information), you must also determine whether similar reports (Form W-3c, Transmittal of Corrected Income and Tax Statements and Form W-2c) should be submitted to SSA.

Mail all paper Forms W-2c/W-3c to the appropriate address (depending on the mail service used) shown below.

If United States Postal Service-Send to:

Social Security Administration
Data Operations Center
P.O. Box 3333
Wilkes-Barre, PA 18767-3333

If Other Carrier (e.g.FedEx, UPS)-Send to:

Social Security Administration
Data Operations Center
Attn: W-2c Process
1150 E. Mountain Drive
Wilkes-Barre, PA 18702-7997



Electronic Access

You can obtain additional copies of this SSA publication by using a personal computer and modem to access either the SSA or IRS electronic bulletin board systems (BBS). You can access the SSA-BBS by dialing (410) 965-1133 or the IRS-BBS by dialing (304) 264-7070. Internet subscribers can read and print this publication directly from the Employer Information section of *SSA Online* @ WWW.SSA.GOV.

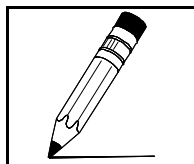


Magnetic Media Filing

This document does not include magnetic media filing requirements. For copies of TY 1997 magnetic media filing instructions for W-2/W-3 information and W-2c/W-3c correction information, you should contact your respective magnetic media specialist listed in Appendix A. You may also obtain this information through the SSA or IRS BBS or through SSA's Website @ WWW.SSA.GOV.

SSA encourages employers and third-party processors who use software to produce paper Forms W-3 and Copy A of Forms W-2 to convert to diskette reporting as an alternative to filing paper forms. Filing via diskette offers advantages to both the public and SSA by eliminating the need to produce and mail many individual paper forms and permitting fast, accurate data entry and processing. Further, many software programs available today contain edits and other safeguards to help ensure that the wage and tax data produced is accurate and complete. Please contact your magnetic media specialist to obtain a copy of SSA's diskette reporting specifications.

Beyond submitting diskette wage reports, SSA is piloting an effort to electronically transmit W-2 (Copy A) and W-3 wage and tax data via SSA's Online Wage Reporting Bulletin Board System (OWRBBS). This pilot is accepting electronic transmissions only in formats that adhere to SSA's magnetic media diskette specifications. SSA will keep the public apprised of efforts to expand the OWRBBS initiative beyond a pilot mode.



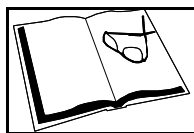
Paper Correction Reports

Guidelines for correcting Forms W-2 and W-3 are contained in SSA publication number 31-031, Software Specifications and Edits for Correcting Annual Wage Reports. These guidelines prescribe specifications and edits for paper W-2c and W-3c reports. The guidelines also include examples of correctly prepared W-2c and W-3c reports.



Penalties

The law requires IRS to consider imposing penalties based on a multi-tier system. IRS Publication 15, Circular E, Employer's Tax Guide, provides a complete description of the penalty provisions. The penalty amounts are based on when correct information is filed. SSA will advise IRS about dates of receipt of all late filed paper reports or magnetic media transmittals; IRS will determine if penalties are applicable.

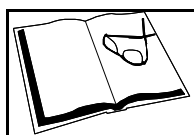


Personal Earnings and Benefit Estimate Statement (PEBES)

Individuals can request a PEBES from SSA at any time. However, in February 1995, SSA automatically mailed a PEBES to people age 60 or older who (1) have earnings credited to their SSN and (2) are not receiving Social Security benefits. In October 1995, SSA automatically mailed PEBES to people who reached age 60 during the year to help people nearing retirement become better informed about what they can expect to receive in Social Security benefits. By the year 2000, eligible individuals age 25 and older will automatically receive a PEBES each year.

PEBES displays an individual's earnings each year from the SSA earnings record, based on self-employment income or Forms W-2 provided by employers. PEBES also provides an estimate of retirement, survivors, and disability insurance benefits an individual (and family) may be eligible for. The earnings record has a direct bearing on the eligibility for and amount of Social Security benefits. It is therefore essential that employers submit accurate Form W-2 information to SSA. For example, when name or SSN information on the Form W-2 do not match SSA's records, SSA cannot credit wage information to an individual's record and must place these data in a suspense file. Uncredited earnings can adversely affect an employee's future eligibility for benefits.

Employers may request SSA Publication No. 20-003, Employer Information Package, Personal Earnings and Benefit Estimate Statement. This package is designed to help employers (1) inform employees about the PEBES and reduce the number of employee questions, (2) respond to many generic questions that may arise, and (3) correct any erroneous information that may have been reported to SSA on Forms W-2/W-3 and Forms W-2c/W-3c. Employers may request the Employer Information Package by calling toll free, 1-800-772-1213. Also, a free video is available that encourages employees to request a PEBES. The video is available for employers to show at lunch or break times or during employee meetings. To receive a copy of the free video, employers may contact the SSA Office of Communications at (410) 966-0520 or by fax request at (410) 966-4871.



Enumeration Verification System (EVS)

SSA's EVS will match employee names and SSNs with SSA records before the employer prepares and submits Forms W-2. SSA will verify SSNs solely to ensure that the records of your employees are correct for the purpose of completing Forms W-2. Making sure names and SSNs reported on Forms W-2 match SSA's records is important because unmatched records can result in additional processing costs for the employer and uncredited earnings for your employees. Uncredited earnings can affect future eligibility to and amount of Social Security and Medicare benefits.

EVS can help eliminate name and number errors. It's ideal if you want to verify an entire payroll database or if you hire more than 50 workers at a time. Employers may contact SSA's toll free number, 1-800-772-1213 if they want to verify one to five names. Employers may verify up to 50 names and SSN's by contacting their local SSA office.

To use EVS, all the employer has to do is register with SSA, then submit the requests on diskette, magnetic tape, 3480 or 3490 cartridges or paper. Requests can be submitted year round and generally take about 30 days to process, although requests on diskette may take longer depending on the time of year they're submitted. An EVS hotline is available to answer questions. The telephone number is (410) 965-7140.

Note: Any information the employer receives from SSA's records is governed by the Federal Privacy Act, 5 USC 552a(I). Under the Act, anyone who obtains this information under false pretenses or uses it for purposes other than that for which it was requested, may be punished by a fine or imprisonment or both.

Criteria for Producing Annual Wage Reports

Paper Forms W-2 and W-3 should meet the following criteria.

1. Software to produce the forms should automatically enter required information, such as employer and employee names, addresses, SSNs and EINs, etc. This information should be obtained by the software from verified information in an employer's personnel and company records and should not need to be reentered during preparation of each report.
2. W-2 data for each employer should be segregated based on type of employment (e.g., regular Social Security tax employment versus Medicare Qualified Government Employment (MQGE)). There should be one W-2 submission for each type of employment. W-2s for each type of employment should be accompanied by a W-3 indicating the corresponding type of employment (kind of payer). However, in certain situations State and Local government employers have the option of reporting employee wages and tax withheld on either a combined or split-report basis, (see page 52).
3. Information should be entered in all appropriate blocks, items or data fields for the type of employment being reported.
4. Software must not permit generating W-3 entries before all corresponding W-2 entries are prepared.
5. Repetitive information, such as the employer's name, address, and EIN should be checked for consistency before preparing the forms.
6. Where appropriate, only alphabetic or numeric information should be entered. Impossible SSNs or EINs should be screened out.
7. Employee tax withholding amounts should be consistent with the taxable wages and rates for Social Security or Medicare.
8. Subtotal W-2 money amounts should only be produced when there are 42 or more employee W-2 statements. Once the threshold of 42 is met, subtotal statements should be produced for each group of 41 employee W-2 statements and for the remaining statements when less than 41. The corresponding W-3 report should reflect subtotal money amounts (or aggregate W-2 money amounts when no subtotal statements are required).

9. When appropriate, special payment amounts, such as sick pay, must be included as Social Security wages and Medicare wages.
10. Use W-3 control totals to match and reconcile the annual sum of quarterly line item amounts reported on IRS Form 941 or comparable forms for the same tax year and same EIN. Employers should be alert for adjustments reported on the IRS 941c submissions to ascertain that they belong to the current year.



Inquiries

Comments or suggestions regarding this document should be forwarded to the:

Social Security Administration
Office of Financial Policy and Operations
ATTN: AWR Software Standards
P.O. Box 17195
Baltimore, MD 21297-1195

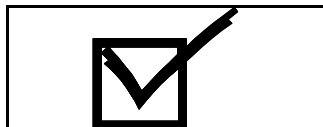
Operational or technical questions should be directed to your respective regional magnetic media specialist listed in Appendix A.

Tax questions or questions on tax law and regulations (including calculating amounts which are to be reported) must be addressed to the IRS Information Reporting Program Call Site at telephone number 1-304-263-8700 (Not a Toll Free Number).

Employers with questions concerning the SSA and IRS reconciliations of W-2 data, Medicare reporting error notices and or questions concerning magnetic media filing may contact the SSA at 1-800-772-6270 on weekdays from 7 a.m. to 7 p.m. (Eastern Time).

CHAPTER 2

EMPLOYER CHECKLIST



The following checklist contains a number of basic steps you can take to help report employee wages accurately and protect their future benefits under the Social Security and Medicare programs.

Recording and Verifying Social Security Numbers

- [] Always request to examine the Social Security card for a job applicant to ensure that the individual's name and SSN agree with the same information on the job application. If different, ask the applicant to visit a Social Security office to report a name change or other problem.
- [] Transcribe the name and SSN carefully and accurately.
- [] Employers can maintain a photocopy of the employee's Social Security card with the employee's personnel records for further verification of the SSN.

Preparing and Submitting Annual Wage Reports

- [] Use either the IRS official Forms W-2 and W-3 or privately printed substitute Forms W-2 and W-3 and ensure that the correct tax year forms are submitted to SSA. SSA accepts **only** 7 inch wide Forms W-2 and W-3. SSA no longer accepts 7.5 and 8 inch wide forms because they cannot be scanned through SSA's scanning equipment. This new requirement is explained in IRS Publication 1141 General Rules and Specifications for Private Printing of Substitute Forms W-2 and W-3. All privately-printed, substitute Forms W-2 and W-3 **must** adhere to the specifications contained in publication 1141.

Here are several reminders on the specifications for creating substitute Forms W-3 and W-2 (Copy A) and the entry of data on all forms.

1. Margins: Do not print, write or enter any data in the margins of the form(s). These areas are used to accommodate control information during SSA's processing.
2. Printing the Form(s): All printing for Forms W-3 and W-2 (Copy A) will be in red Optical Character Recognition (OCR) dropout ink, except for the form

- identifying numbers '22222' or '33333' at the top of the form and the descriptive information at the bottom which will be printed in nonreflective black ink. The font used to print data on Forms W-3 and W-2 (Copy A) should be very dark and not smaller than **12 characters per inch**. Do not use script, inverted, italics and/or dual case fonts when preparing the forms. Do not use inks that contain red pigment on forms that contain employer provided information.
3. **Paper Requirements:** Paper for privately-printed, substitute forms (cut sheets and continuous pinfeed forms) that are to be filed with SSA must be white 100 percent bleached chemical wood, **18-20 pound paper only**, OCR bond with specific weight requirements. The forms must be produced in accordance with the detailed specifications of IRS Publication No. 1141.
 4. **Data Entry:**
 - o Entries on the Forms W-2 and W-3 should be typed or machine printed whenever possible, using high quality type face.
 - o The data entered must be presented in clear, **dark** images to guarantee machine scannable forms.
 - o Insert data in the middle of the blocks and well separated from other printing.
 5. **Separating the Forms:** Continuous pinfeed forms should be separated at the page perforation into individual 11 inch deep pages (i.e., 2 Forms W-2 or 1 Form W-3 per page) in accordance with IRS publication 1141. When separating forms, keep them in order and submit them in the order printed. **Note:** Individual Forms W-2 should not be cut to create two separate forms because it causes processing problems.
 6. Mail all paper Forms W-3 and W-2 (copy A) to the appropriate address (depending on the mail service used) shown below.

If United States Postal Service-
Send to:

Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001
**(For certified mail use ZIP code
18769-0002)**

If Other Carrier (e.g. FedEx, UPS)-
Send to:

Social Security Administration
Data Operations Center
Attn: AWR Process
1150 E. Mountain Drive
Wilkes-Barre, PA 18702-7997

- [] Ensure that a Form W-3 accompanies each employer group of W-2 submissions.
- [] Ensure that your EIN reported on Forms W-2, W-3 and 941 is the correct number issued by the IRS and that you reported the EIN consistently on all three types of forms.
- [] Certain information reported on the Forms W-2 should balance with the Form W-3 and Form 941 data. To assure proper balancing when reporting:
 1. Check that the Social Security wages and Social Security tips reported on the Forms W-2 (a) equal the total Social Security wages and Social Security tips reported on the accompanying Form W-3 and (b) equal the annual sum of the quarterly amounts reported to IRS for Social Security wages and Social Security tips on Forms 941, and
 2. Check that the Medicare wages and tips reported on the Forms W-2 (a) equal the total Medicare wages and tips reported on the accompanying Form W-3 and (b) equal the annual sum of the quarterly amounts reported to IRS for Medicare wages and tips on Forms 941.
- [] Send Forms W-3 and **Copy A** of Forms W-2 **only** to SSA - not IRS or other destinations.
- [] Ensure that the correct tax year is shown on both Forms W-3 and W-2 (Copy A).
- [] If you terminate your business, you must provide Form (s) W-2 to your employees for the calendar year of termination by the date your final Form 941 is required to be filed. Additionally, you must file Forms W-2 with the SSA by the end of the second month after the end of the quarter for which the final Form 941 is filed.
- [] You may request an extension of time for filing Form W-2 (Copy A) with SSA by sending **IRS Form 8809, Request for Extension of Time to File Information Returns**, to the address shown on that form. To obtain this form, contact your local IRS office or call 1-800-829-3676. For your request to be considered, you must request the extension before the due date of the returns. If approved, you will have an additional 30 days to file. See **Form 8809** for more details.
- [] If you will file Forms W-2 on behalf of other employers in an "Agent" capacity, please remember to:
 1. Report on Forms 941 throughout the tax year, the wage and tax data for all employers (including the "agent" if the "agent" is also an employer) for which the

"agent" is assuming a reporting responsibility and use the "agent" name and EIN on the Forms 941;

2. Enter the ["Agent's" EIN] in box b and the ["Agent's" Name and Address] in box c of the Forms W-2 (Exception: When an employee's total Social Security wages exceed the taxable Social Security wage base, enter the ["Agent's" name], "Agent for" [Employer's Name], and ["Agent" Address] in box c and the ["Agent's" EIN] in box b);
3. Enter the ["Agent" Name] in box f, ["Agent" Address] in box g and the "Agent's" EIN in box e of Form W-3; and
4. Submit all Forms W-2 prepared on behalf of the other employers (and your own if you are also an employer) under one W-3 transmittal.

Note: Please refer to "Agent" Reporting in Chapter 4 (beginning on page 99) for further explanation and examples.

Post-Reporting Activities

- [] When Form W-2 (Copy A) data are submitted to SSA on magnetic media, do not submit paper Forms W-2 (Copy A) that contain the same information to SSA.
- [] If, after submitting Forms W-2 and W-3, you identify any differences between the Social Security wages/tips and Medicare wages/tips reported to SSA versus those reported to IRS, evaluate whether you should submit correction reports to SSA (Forms W-3c and W-2c) and/or to IRS (Form 941c). Retain copies of this information with your tax records.
- [] Do not use a new W-2 or W-3 form to correct a previous report submission - use a W-2c and W-3c instead.

Ongoing Activities

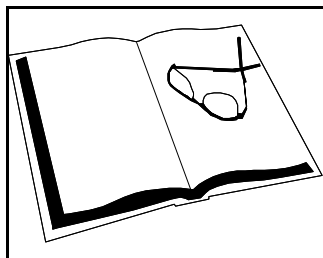
- [] Remind employees to promptly report any name changes (marriages, divorces, etc.,) by completing and submitting a new Form SS-5, Application for a Social Security Card to SSA so their earnings can be credited to their proper earnings record. To obtain a new Form SS-5, employees may call SSA's toll free number 1-800-772-1213 between 7 a.m. and 7 p.m. any business day.

- [] Encourage employees to verify basic information each year on their copies of Forms W-2, particularly their name and SSN, and report any errors promptly to you.
- [] Encourage your employees to check their earnings records with SSA by obtaining a PEBES request form (Form SSA-7004). Remind your employees that SSA requires an original signature to process PEBES requests. For more on PEBES, see page 6.
- [] You can reproduce a quantity of the SSA-7004 to distribute to your employees so they can request the PEBES. To order a "camera-ready" copy of Form SSA-7004, please either FAX your request to (410) 965-6400 or send your written request to:

Social Security Administration
Office of Publications Management
Attn: Ms. Thelma Williams
1-A-21 Operations Bldg.
6401 Security Blvd.
Baltimore, MD 21235

CHAPTER 3

STANDARDS, SPECIFICATIONS AND EDITS



Introduction

This Chapter provides standards, specifications and edits for preparing paper Forms W-3 and Copy A of paper Forms W-2 for SSA. These criteria are segregated to address two audiences - namely (1) employer human resource departments and (2) software developers who write software used to produce the paper wage and tax statements.

The standards for human resource departments outline data for the employer and the employee, as well as employee wage and tax data which employers should compile for use in preparing paper Forms W-3 and copy A of Forms W-2. These standards are comprised of guidelines which identify what data to compile, describe what the data should represent and specify certain data characteristics which may identify suspect or incorrect data. Employers should adopt these guidelines as part of their organizational procedures to help ensure the accuracy of payroll data used in wage and tax statement reporting and minimize common reporting problems.

The specifications and edits constitute guidelines for software developers who write programs which produce the W-2 and W-3 paper forms. These guidelines prescribe which data to print in each Form W-2/W-3 box, data entry content requirements, data entry formats and edits which may identify suspect or incorrect entries. Software developers should incorporate these specifications and edits in their wage and tax statement software for paper forms to help ensure accurate annual wage reporting.

The standards, specifications and edits which follow are designated as either required or optional. Items designated as required on Forms W-3 and Copy A of Forms W-2 constitute data required to be submitted to SSA for either (1) use by SSA for programmatic purposes and/or (2) accumulation and transmission to IRS for tax processing and enforcement purposes. Items designated as optional constitute other data not required to be submitted to SSA but which may be required for tax reporting purposes on other copies of Forms W-2.

NOTE: The principle instructions for preparing paper Forms W-2 and W-3 are published by the IRS.

PART 1: PAPER FORM W-2

<u>W-2 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
a.	O	Control Number.	May be used as a numbering system to account for all W-2s used for the tax year. Note: If used, please keep the data within the box. If data extends outside the box, the form may not be processed correctly.	Not required by SSA.
	R-If Applicable	Void	Place an "X" in this check-box if the Form W-2 is being voided.	This box must be either blank or contain an "X".
b.	R	Employer's Identification Number (EIN).	<p>This is the 9 digit number assigned by the IRS.</p> <p>a. Entry should be shown as 10 positions, all numerics and one hyphen in position 3 (e.g., 00-0000000). Use the same EIN used in preparing Federal employment tax returns (e.g., Form 941 or Form 943, <u>Employer's Annual Tax Return for Agricultural Employees</u>).</p> <p>b. The first two left-most positions <u>cannot</u> be 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49, 50, 60, 69, 70, 78, 79, 80, 89, 90.</p> <p>c. Place the EIN of the "agent" in this box if an "agent" prepared the Form W-2 for another employer. Apply the same rules as in a. and b. above.</p>	<p>This is the 9 digit number assigned by the IRS.</p> <p>a. Must be 10 positions.</p> <p>b. Hyphen <u>only</u> in position 3.</p> <p>c. Positions 1, 2 and 4 through 10 must be numeric.</p> <p>d. The first two left-most positions <u>cannot</u> be: 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49, 50, 60, 69, 70, 78, 79, 80, 89, 90.</p>

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c.	R	Employer's Name Address and ZIP Code.	<p>a. Show the employer's full name, address and ZIP code.</p> <p>b. If an "agent" prepared the Form W-2 for another employer, show the "agent's" name (as registered with the IRS) on the first line. On the next lines, show the address of the "agent". Exception: If any employee's aggregate Social Security wages exceed the Social Security wage base for the reporting year, then show the "agent's" name (as registered with the IRS) on the first line, the name of the company for which the employee was paid wages on the second line preceded by the words "Agent for" and on the next lines, show the "agent's" address. See "Agent" Reporting in Chapter 4.</p>	Free-form.
d.	R	Employee's Social Security Number.	Enter the employee's Social Security Number (SSN) in an 11 position format; 9 numerics with hyphens in positions 4 and 7 (e.g., 000-00-0000). The following are impossible SSN's; all ones (111-11-1111), all threes (333-33-3333), (123-45-6789) or any SSN having 000, 666, 729 through 749 or 764 through 999 as the first three digits.	<p>a. Must be 11 positions.</p> <p>b. Hyphens <u>only</u> in positions 4 and 7.</p> <p>c. Numerics in all other positions.</p> <p>d. Cannot be all ones, all threes, or 123-45-6789.</p> <p>e. The first three positions for any SSN cannot be 000, 666, 729 through 749 or 764 through 999.</p>

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e.	R	Employee's Name (first, middle initial, last).	<p>Enter the name as shown on the employee's Social Security card (first, middle initial, last). Exclude titles in prefixes or suffixes. Care should be taken when providing entries with compound surnames. Parts of compound surnames must be connected with a hyphen. For example:</p> <ul style="list-style-type: none"> a. Maria Rodriguez-de-Perez properly displays a first name (Maria), no middle initial, and a compound surname (Rodriguez-de-Perez); b. Maria Elena Rodriguez-de-Perez properly displays a first name (Maria) a middle initial of E (for the middle name Elena) and a compound surname (Rodriguez-de-Perez). c. Diego Garcia-y-Vega properly displays a first name (Diego), no middle name, and a compound surname of (Garcia-y-Vega). d. Additional examples: <p>. Susan B. Smith Johnson, enter Susan B Smith-Johnson</p> <p>Maria Mercedes Sancho Davila, enter Maria M Sancho-Davila</p> <p>Jose Ramon Lopez Gonzales, enter</p>	First, middle initial, last.

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			Jose R Lopez-Gonzales	
			Ivan Ramirez Arellano (no middle name), enter Ivan Ramirez-Arellano	
			Catherine L. Smith Le May, enter Catherine L Smith-Le-May	
			Gloria M. Rodriquez de Perez, enter Gloria M Rodriquez-de-Perez	
			Single-letter prefixes such as O or D must not be separated from the rest of the surname by a blank, but should be connected by an apostrophe or joined to the rest of the surname. For example:	
			Grace H. O'Malley, enter Grace H O'Malley or Grace H OMalley	
			Anthony D'Angelo (no middle name), enter Anthony D'Angelo or Anthony DAngelo	
f.	R	Employee's Address and ZIP Code.	Enter the employee's full address and ZIP Code.	Free-form.

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1	R	Wages, Tips, Other Compensation.	<p>a. Calculate (excluding elective deferrals, except section 501(c)(18) contributions), before any payroll deduction, the following:</p> <p>(1) Total wages paid during the year.</p> <p>(2) All tips reported, exclusive of those classified as allocated tips.</p> <p>(3) All noncash payments (including fringe benefits).</p> <p>(4) Report distributions from nonqualified deferred compensation plans and section 457 plans.</p> <p>(5) Dependent care benefit amounts incurred on behalf of employees in excess of the \$5,000 exclusion.</p> <p>(6) All other compensation; e.g., taxable payments for moving expenses, certain scholarships or fellowship grants, reimbursements for employee business expenses exceeding amounts treated as substantiated, the cost of group-term life insurance coverage provided to an employee in excess of \$50,000, the cost of accident and health insurance premiums paid on behalf of 2% or more</p>	<p>a. Must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>b. Decimal point must be shown even when the entry is even dollars.</p> <p>c. Cannot be a negative amount.</p>

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			shareholder-employees by an S corporation, taxable benefits made from a Section 125 plan (i.e., employee chooses cash) etc. b. The entry must be a numeric value only and cannot be a negative amount.	
<hr/> <p>NOTE: For information on what constitutes wages, tips and other compensation, see IRS Instructions for Form W-2. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.</p> <hr/>				
2	R-If Applicable	Federal Income Tax Withheld.	a. Calculate the amount of Federal income tax withheld from the employee's wages for the year. Include the 20 percent excise tax on money amounts classified as wages which constituted excess "golden parachute" payments if applicable. b. The entry must be a numeric value only and cannot be a negative amount.	a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank.
3	R-Based on Type of Employment	Social Security Wages.	For employment where wages are subject to the 6.2 percent Social Security tax. a. Calculate the total Social Security	a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even

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			<p>wages paid (before payroll deductions). Exclude Social Security tips and allocated tips.</p> <p>b. The amount cannot exceed the maximum Social Security taxable wage base amount of \$65,400 for tax year 1997.</p> <p>c. The entry must be a numeric value only and cannot be a negative amount.</p>	<p>when the entry is even dollars.</p> <p>c. Cannot be a negative amount.</p> <p>d. When the amount is zero, leave the box blank.</p> <p>e. Cannot exceed \$65,400 for tax year 1997.</p> <p>f. Cannot include entry when type of employment is MQGE or RRTA.</p> <p>g. If box 3 contains an entry, then (a) box 4 must contain an entry and/or box 13 must contain an entry preceded by an alpha code "M" and (b) box 5 must contain an entry.</p>
<p>NOTE: See IRS Instructions for Form W-2 for more information on Form W-2, Box 3 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.</p>				
4	R-Based on Type of Employment	Social Security Tax Withheld.	<p>For employment where wages are subject to the 6.2 percent Social Security tax.</p> <p>a. Calculate the total employee Social Security tax (not the employer share) withheld or paid for the employee up to a maximum of \$4054.80 for tax year 1997.</p> <p>b. The entry must be a numeric value only and cannot be a negative amount.</p>	<p>a. Must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>b. Decimal point must be shown even when the entry is even dollars.</p> <p>c. Cannot be a negative amount.</p> <p>d. When the amount is zero, leave the box blank.</p> <p>e. Must be the lesser of 6.2 percent of the total amount of boxes 3 and 7 combined or \$4054.80 for tax year 1997.</p>

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				f. Cannot contain an entry when the type of employment is MQGE or RRTA.
<hr/> <p>NOTE: See IRS Instructions for Form W-2 for more information on Form W-2, Box 4 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.</p> <hr/>				
5	R-Based on Type of Employment	Medicare Wages and Tips.	<p>For employment where wages and tips are subject to the 1.45 percent Medicare tax.</p> <p>a. Calculate the total employee Medicare wage and tip amount.</p> <p>b. The entry must be a numeric value only and cannot be a negative amount.</p> <p>c. Note: Beginning with TY 1994, there is no limit on the amount of Medicare wages and tips. This amount should represent all wages, tips and other compensation (Box 1) plus elective deferrals to (1) certain qualified cash or deferred compensation arrangements and (2) retirement arrangements reported in Box 13 (codes D, E, F, G and S). Also include both elective and non-elective deferrals for Section 457 plans (reported in Box 13 code H).</p>	<p>a. Must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>b. Decimal point must be shown even when the entry is even dollars.</p> <p>c. Cannot be a negative amount.</p> <p>d. When the amount is zero, leave the box blank.</p> <p>e. Must be blank if type of employment is RRTA.</p> <p>f. If box 5 contains an entry, then (a) box 6 must contain an entry and/or (b) box 13 must contain an entry preceded by an alpha "B" or "N".</p> <p>g. This entry must equal or exceed the combined entries of boxes 3 and 7.</p>

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6	R-Based on Type of Employment	Medicare Tax Withheld.	<p>For employment where wages and tips are subject to the 1.45 percent Medicare tax.</p> <ul style="list-style-type: none"> a. Calculate the total employee Medicare tax withheld. b. The entry must be a numeric value only and cannot be a negative amount. c. Note: Beginning with TY 1994, there is no limit on the amount of Medicare wages and tips that are subject to Medicare tax. 	<ul style="list-style-type: none"> a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank. e. Cannot exceed 1.45 percent of the money amount entered in box 5. f. Cannot contain an entry if box 5 is blank (i.e., value of zero). g. Cannot contain an entry when the type of employment code is RRTA.
<p>NOTE: See IRS Instructions for Form W-2 for more information on Form W-2, Box 5 and Box 6 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.</p>				
7	R-Based on Type of Employment	Social Security Tips.	<p>For employment where tips are subject to the 6.2 percent Social Security tax.</p> <ul style="list-style-type: none"> a. Calculate the amount the employee reported. Exclude allocated tip amounts. b. Limit the entry to the <u>lesser</u> of: (1) actual Social Security tips or (2) the Social Security wage amount subtracted from \$65,400. c. The entry must be a numeric value 	<ul style="list-style-type: none"> a. Must be dollars and cents (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank. e. Cannot contain an entry when the type of employment is MQGE or RRTA.

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			only and cannot be a negative amount.	f. Entry cannot be greater than \$65,400 minus the box 3 entry. g. If box 7 contains an entry, then (a) box 4 must contain an entry and/or box 13 must contain an entry preceded by an alpha code "A" and (b) box 5 must contain an entry.
NOTE: See IRS Instructions for Form W-2 for more information on Form W-2, Box 7 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.				
8	R-If Applicable	Allocated Tips.	a. Calculate the amount of tips allocated to the employee. Exclude amounts classified as (1) wages, tips and other compensation, (2) Social Security tips or (3) the amount included as tips in box 5 "Medicare Wages and Tips". b. The entry must be a numeric value only and cannot be a negative amount.	a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank.
NOTE: See IRS Instructions for Form 8027, <u>Employer's Annual Information Return of Tip Income and Allocated Tips</u> , for more information on Form W-2, Box 8 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.				
9	R-If applicable	Advance EIC Payment.	a. Calculate the total amount paid to the employee as advance earned income	a. Must be dollars and cents, (numerics and decimal point <u>only</u>).

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			credit payments. This amount cannot exceed \$1,326.00 for tax year 1997.	
			b. The entry must be a numeric value only and cannot be a negative amount.	b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank. e. Cannot exceed \$1,326.00 for tax year 1997.
10	R-If Applicable	Dependent Care Benefits.	a. Calculate the total amount of dependent care benefits under Section 129 of the Internal Revenue Code or a section 125 plan paid or incurred by you for the employee. The amount entered should include any amount in excess of the \$5,000 exclusion. b. The entry must be a numeric value only and cannot be a negative amount.	a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank.
<hr/> NOTE: See IRS instructions for Form W-2 for more information on Form W-2, Box 10 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA.				
11	R-If Applicable	Nonqualified Plans.	a. Calculate (1) the amount of distributions to an employee from a nonqualified deferred compensation plan and/or a Section 457 plan (this amount should be included as wages, tips and other compensation in Box 1) <u>and</u> (2) amounts deferred under a nonqualified plan which became	a. Must be dollars and cents. b. Decimal point must be shown even when the entry is even dollars. c. Cannot be a negative amount. d. When the amount is zero, leave the box blank. e. If this amount represents <u>only</u> a section 457 plan distribution, the

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<u>W-2 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			<p>taxable during the tax year, based on the <u>later</u> of (a) when the services giving rise to the deferral are performed <u>or</u> (b) when there is no substantial forfeiture risk of the rights to the deferred amount (this amount should be included as Social Security wages in box 3 and Medicare wages in box 5).</p> <p>b. If the amount calculated represents <u>only</u> a Section 457 plan distribution, data should exist which permits associating this amount with an alpha code of "G".</p> <p>c. The entry must be a numeric value only and cannot be a negative amount.</p>	<p>entry must be preceded by an alpha code "G" and at least one blank space.</p> <p>f. Can contain <u>only one</u> entry.</p>
12	O	Benefits Included in Box 1.	<p>a. Calculate the total value of taxable fringe benefits as other compensation.</p> <p>b. The entry must be a numeric value only and cannot be a negative amount.</p>	<p>a. Must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>b. Decimal point must be shown even when the entry is even dollars.</p> <p>c. Cannot be a negative amount.</p> <p>d. When the amount is zero, leave the box blank.</p> <p>e. Cannot exceed the amount entered in box 1.</p>
13	R-If Applicable	See Instrs. for Box 13.	<p>a. Calculate money amounts for any one or more of the following, where</p>	<p>a. Must be either (1) an upper case alpha reference code</p>

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<u>W-2 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
		applicable to the employee:		("A through "H", "J" through "N", or "P" through "T") followed by at least one space and a money amount or
		(1) Uncollected Social Security tax on employee tips.		(2) a money amount without an alpha code when the subtotal box is marked with an "X" in box 15.
		(2) Uncollected Medicare tax on employee tips.		b. Money amount must be shown as dollars and cents with a decimal point.
		(3) Cost of group-term life insurance coverage provided to the employee in excess of \$50,000.		c. Decimal point must be shown even when the entry is even dollars.
		(4) Contributions (total elective deferral and any excess) to any of the following types of deferred compensation plans: Section 401(k), Section 403(b), Section 408(k)(6), Section 457(b) and Section 501(c)(18)(D). Note: For section 457(b) plans, (a) include both elective and nonelective deferrals and (b) exclude amounts subject to a substantial risk of forfeiture. When subtotalling, do not enter alpha codes in box 13 and subtotal only codes D through H and S as one amount.		d. Cannot be a negative amount.
		(5) Employee sick pay not included as income in box 1, (wages, tips, other compensation).		e. If no entries exist for this box, leave the box blank.
		(6) The 20 percent excise tax on excess "golden parachute" payments.		f. If the subtotal box in box 15 contains an "X", this box can contain <u>only</u> one entry which must equal the combined total of all deferred compensation entries (codes D through H and S) for the Forms W-2 being subtotaled.
		(7) When employee business expense		g. If the subtotal box in box 15 is blank, this box can contain up to 3 entries.
				h. If the subtotal box in box 15 is blank and more than 3 entries are designated for this box, another W-2 form must be printed (for the remaining entries) containing <u>only</u> :
				(1) The same non-monetary data printed in boxes b, c, d, e and

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<u>W-2</u> <u>BOX</u>	<u>REQUIRED-R</u> <u>OPTIONAL-O</u>	<u>NAME/</u> <u>DESCRIPTION</u>	<u>STANDARDS FOR HUMAN</u> <u>RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS</u> <u>FOR SOFTWARE DEVELOPERS</u>
			reimbursements exceed amounts substantiated under IRS rules, report the portion of the reimbursements which are treated as substantiated (i.e., the nontaxable portion).	f on preceding W-2 form for that employee, and
			(8) Uncollected Social Security tax on group-term life insurance provided to former employees (including retirees) in excess of \$50,000.	(2) The remaining box 13 entries (up to 3 for each additional form).
			(9) Uncollected Medicare tax on group-term life insurance provided to former employees (including retirees) in excess of \$50,000.	
			(10) Excludable reimbursements to an employee (including payments made directly to a third party and services furnished in kind) for moving expenses incurred.	
			(11) If you are a military employer and provide your employee with basic quarters and subsistence allowances, report the amount.	
			(12) Employer contributions to a medical savings account for the employee. Any employer contributions not excludable from the employee's gross income also must be included in box 1.	

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<u>W-2</u> <u>BOX</u>	<u>REQUIRED-R</u> <u>OPTIONAL-O</u>	<u>NAME/</u> <u>DESCRIPTION</u>	<u>STANDARDS FOR HUMAN</u> <u>RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS</u> <u>FOR SOFTWARE DEVELOPERS</u>
			(13) Employee salary reductions to a SIMPLE retirement account. Show the amount deferred under a section 408 (p) salary reduction SIMPLE retirement account. However, if the SIMPLE is part of a section 401 (k) arrangement, the amount is reported using code D.	
			(14) The total amount paid or expenses incurred by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program. Also include benefits from the pre-tax contributions made by the employee to a section 125 adoption plan account.	
			b. The entry must be numeric preceded by a single alpha code (or only numeric for subtotal statements) and cannot be a negative amount.	
			c. Data should exist which permits associating one of the following alpha codes with the corresponding calculated amount(s) listed in 13a:	
			Item 13a(1) A	
			Item 13a(2) B	
			Item 13a(3) C	

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<u>W-2</u> <u>BOX</u>	<u>REQUIRED-R</u> <u>OPTIONAL-O</u>	<u>NAME/</u> <u>DESCRIPTION</u>	<u>STANDARDS FOR HUMAN</u> <u>RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS</u> <u>FOR SOFTWARE DEVELOPERS</u>
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Item 13a(4):

Section 401(k) **D**
Section 403(b) **E**
Section 408(k)(6) **F**
Section 457(b) **G**
Section 501(c)(18)(D) . **H**

Item 13a(5) **J**
Item 13a(6) **K**
Item 13a(7) **L**
Item 13a(8) **M**
Item 13a(9) **N**
Item 13a(10) **P**
Item 13a(11) **Q**
Item 13a(12) **R**
Item 13a(13) **S**
Item 13a(14) **T**

NOTE: See IRS instructions for Forms W-2 for more information on Form W-2, Box 13 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); **do not** contact SSA.

14	O	Other.	For employer use. This box may be used for any other information you want to give your employee. Please label each box. Examples are: a. Union dues. b. Health insurance premiums deducted. c. Educational assistance payments.	Not required by SSA.
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PART 1: PAPER FORM W-2

<u>W-2 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
15	R-If Applicable	Check the Boxes that apply.	<p>Individual Boxes should be checked to designate one or more of the following:</p> <ul style="list-style-type: none"> a. Statutory employee - if there are earnings subject to Social Security tax and Medicare tax but not Federal income tax withholding. b. Deceased - if employee is now deceased. c. Pension plan - if employee was an active participant (for any part of the year) in a retirement plan. Exclude contributions to nonqualified plans or 457 plans in determining whether this box should be marked. d. Legal rep. - if employee's name is the only one shown but is shown as a trust account or if another name is shown in addition to the employee's name and the other person is acting on behalf of the employee. e. Hshld. emp. - For household employers only. Mark this box if you are a household employer (even if you are only filing a single Form W-2). f. Subtotal - If this Form W-2 represents a subtotal form. g. Deferred compensation - If the employee has made an elective deferral to a section 401(k), 403(b), 	<ul style="list-style-type: none"> a. Must contain an "X" in the box(s) that apply. b. If the "subtotal" box contains an "X", then the form cannot contain entries in boxes <u>other than</u> "a" (optional), "b", "c", 1 through 11 and 13. <ul style="list-style-type: none"> (1) For each box that contains a money entry; the entry must be the combined total of the entries in the same box for the previous 41 forms W-2 (or the last group if less than 41) <u>not</u> to include any amounts from forms that have an "X" in the "Void" box. (2) Only one subtotal entry can be made in each box. (3) The entry must be dollars and cents (numerics and decimal point <u>only</u>). (4) Decimal point must be shown even when the entry is even dollars. (5) Cannot be a negative number. (6) When the amount is zero, leave the box blank. (7) When box 13 contains at least one money amount entry preceded by an alpha code D,

PART 1: PAPER FORM W-2

<u>W-2 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			408(k)(6), 408(p) or 501(c)(18)(D) retirement plan. If an elective or nonelective deferral was made to a section 457(b) plan.	E, F, G, H or S, the deferred compensation box must contain an "X". (8) When box 13 contains at least one money amount entry preceded by an alpha code D, E, F, H or S, the pension plan box should contain an "X". (9) When the subtotal box contains an "X" the box 13 entry must equal the combined total of box(s) 13 where the reference code is D, E, F, G, H and/or S for the previous 41 forms W-2 (or the last group if less than 41 forms).
<hr/> NOTE: See IRS Instructions for Form W-2 for more information on Form W-2, Box 15 requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); <u>do not</u> contact SSA. <hr/>				
16-21	O	State or Local Income Tax Information.	Not required by SSA.	Not required by SSA.

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
a.	O	Control Number.	For employer's purposes. Note: If used, please keep the data within the box. If data extends outside the box, the form may not be processed correctly.	Not required by SSA.
b.	R	Kind of Payer.	Software should produce data which identifies one of the following corresponding types of employment for the accompanying W-2 data: a. Agriculture (Box 943). b. Household (Box Hshld). NOTE: Beginning with 1997, all household employers, even those with only one employee, must file Form W-3 with their Form(s) W-2. c. Military. d. Medicare Qualified Government Employee (Box Medicare govt. emp.) e. Railroad (RRTA) (Box CT-1). f. All others (regular) (Box 941).	a. Must contain an "X" in the box that applies. b. Can contain only one "X".

NOTE: See IRS Instructions contained on the W-3 form (Your Copy) and Form W-2 for more information on Form W-3, Box b. requirements. Please contact IRS for copies of its instructions and additional guidance (see Appendix B); **do not** contact SSA.

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
c.	R	Total Number of Statements.	Calculating the total number of statements for the employer is a function of preparing the paper W-3 report, based on the total number of statements produced in the physical report submission.	Must contain the total number of W-2 forms represented by this Form W-3, excluding voided or subtotal Forms W-2.
d.	O	Establishment Number.	Not required by SSA. This box can be used for employer's purposes. If used; a. Prepare only a 4 position entry. b. Entries can be either alpha or numeric. c. Entries with less than 4 positions should use right justification with leading zeros.	If used; a. Must be either blank or a 4-position entry. b. When the establishment number is less than 4 positions, the entry must be right justified with leading zeros.
e.	R	Employer's Identification Number.	This is the 9 digit number assigned by the Internal Revenue Service. a. Entry should be shown as 10 positions, all numerics and one hyphen in position 3 (e.g., 00-0000000). Use the same EIN used in preparing Federal employment tax returns (e.g., Form 941 or Form 943). b. The first two left-most positions <u>cannot</u> be 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49, 50, 60, 69, 70, 78, 79, 80, 89, 90.	a. Must be the same EIN used in W-2 box b for the W-2(s) being reported. b. Must be shown as 10 positions. c. Hyphen <u>only</u> in position 3. d. Numerics <u>only</u> in positions 1, 2 and 4 through 10. e. The first two left-most positions <u>cannot</u> be 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49, 50, 60, 69, 70, 78, 79, 80, 89, 90.

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			c. Place the EIN of the "agent" in this box if an "agent" prepared the Forms W-2. Apply the same rules as in a. and b. above. Must be the same EIN used in W-2, box b for the W-2(s) being reported.	
f.	R	Employer's Name.	<p>a. The employer's name is produced as a function of preparing the physical form W-3, based on the W-2 payroll data submitted for processing.</p> <p>b. If an "agent" prepared the Form(s) W-2, enter only the name of the "agent" in this box.</p>	Free-form. Must match the name entered in box c of the W-2(s) being reported.
g.	R	Employer's Address and ZIP Code.	<p>a. The employer's address and ZIP code is produced as a function of preparing the physical Form W-3, based on the W-2 payroll data submitted for processing.</p> <p>b. If an "agent" prepared the Form(s) W-2, enter the address and ZIP code of the "agent."</p>	Free-form. Must be the same address and ZIP Code entered in box c of the forms W-2 being reported.
h.	R-If applicable	Other EIN Used this Year.	<p>Required entry if, during the year, an EIN (including a prior owner's EIN) was used on Form 941 or 943 that is different from the EIN in box e above.</p> <p>a. Entry should be shown as 10 positions, all numerics and one hyphen in position 3</p>	<p>a. Must be shown as 10 positions.</p> <p>b. Hyphen <u>only</u> in position 3.</p> <p>c. Numerics <u>only</u> in positions 1, 2 and 4 through 10.</p> <p>d. The first two left-most positions <u>cannot</u> be 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49,</p>

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			<p>(e.g., 00-0000000). Use the same EIN used in preparing Federal employment tax returns (e.g., Form 941 or Form 943).</p> <p>b. The first two left-most positions <u>cannot</u> be 00, 07, 08, 09, 10, 17, 18, 19, 20, 26, 27, 28, 29, 30, 40, 49, 50, 60, 69, 70, 78, 79, 80, 89, 90.</p> <p>c. If an "agent" prepared the Form(s) W-2 <u>for only one employer</u> (or one employer and the "agent's" employees, if the "agent" is also an employer), enter the employer's EIN in this box; otherwise, leave this box blank.</p>	<p>50, 60, 69, 70, 78, 79, 80, 89, 90.</p> <p>e. Cannot match the EIN in box e.</p>
i.	O	Employer's State I.D. Number.	Not required by SSA.	Not required by SSA.
1	R	Wages, Tips Other Compensation.	<p>a. The total wages, tips and other compensation calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission.</p> <p>b. The software should calculate a total money amount equal to the sum of the amounts reported in box 1 of the Forms W-2 for that report.</p>	<p>a. Must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>b. Decimal point must be shown even when the entry is even dollars.</p> <p>c. Must equal the total combined entries of box 1 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 1 of the subtotal forms W-2 submitted.</p>

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
2	R	Federal Income Tax Withheld.	<ul style="list-style-type: none"> a. The total Federal income tax withheld calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 2 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> a. Must be dollars and cents, (numerics and decimal point <u>only</u>). b. Decimal point must be shown even when the entry is even dollars. c. Must equal the total combined entries of box 2 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 2 of the subtotal forms W-2 submitted.
3	R-If applicable	Social Security Wages.	<p>Required for employers reporting Social Security wages.</p> <ul style="list-style-type: none"> a. The total Social Security wage calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 3 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 3 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 3 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars. e. Cannot include an entry when Kind of Payer is Railroad (CT-1 is designated in Box b) or Medicare Govt. Emp. is designated in Box b.

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
4	R-If applicable	Social Security Tax Withheld.	<p>Required for all employers reporting Social Security tax withheld.</p> <p>a. The total Social Security tax withheld calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission.</p> <p>b. The software should calculate a total money amount equal to the sum of the amounts reported in box 4 of the Forms W-2 for that report.</p>	<p>a. Must be either blank or a money amount.</p> <p>b. When an entry is made, the total must equal the total combined entries of box 4 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 4 of the subtotal forms W-2 submitted.</p> <p>c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>d. Decimal point must be shown even when the entry is even dollars.</p> <p>e. Cannot include an entry when Kind of Payer is Railroad (CT-1 is designated in Box b) or Medicare Govt. Emp. is designated in Box b.</p> <p>f. Must contain an entry if box 3 contains an entry.</p>

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
5	R-If applicable	Medicare Wages and Tips.	<p>Required for employers reporting Medicare wages and tips.</p> <ul style="list-style-type: none"> a. The total Medicare wage and tip calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 5 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 5 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 5 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars. e. Cannot include an entry when Kind of Payer is Railroad (CT-1 is designated in Box b).
6	R-If applicable	Medicare Tax Withheld.	<p>Required for employers reporting Medicare tax withheld.</p> <ul style="list-style-type: none"> a. The total Medicare tax withheld calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 6 of the 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 6 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 6 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			Forms W-2 for that report.	cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars. e. Cannot include an entry when Kind of Payer is Railroad (CT-1 is designated in Box b). f. Must contain an entry if box 5 contains an entry.
7	R-If applicable	Social Security Tips.	Required for employers reporting Social Security tips. a. The total Social Security tip calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 7 of the Forms W-2 for that report.	a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 7 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 7 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars. e. Cannot include an entry when Kind of Payer is Railroad (CT-1 is designated in Box b) or Medicare Govt. Emp. is designated in Box b.
8	R-If applicable	Allocated Tips.	Required for certain types of employers.	a. Must be either blank or a money

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
			<ul style="list-style-type: none"> a. The total allocated tip calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 8 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> amount. b. When an entry is made, the total must equal the total combined entries of box 8 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 8 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars.
9	R-If applicable	Advance Earned Income Credit (EIC) Payments.	<p>Required for certain types of employers.</p> <ul style="list-style-type: none"> a. The total advanced earned income credit calculation for the employer is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission. b. The software should calculate a total money amount equal to the sum of the amounts reported in box 9 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 9 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 9 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars.
10	R-If applicable	Dependent Care	Required for employer's reporting	<ul style="list-style-type: none"> a. Must be either blank or a money

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
		Benefits.	<p>dependent care benefits.</p> <p>a. The total dependent care benefit calculation is a function of preparing the paper W-3 report, based on the W-2 statements produced in the physical report submission.</p> <p>b. The software should calculate a total money amount equal to the sum of the amounts reported in box 10 of the Forms W-2 for that report.</p>	<p>amount.</p> <p>b. When an entry is made, the total must equal the total combined entries of box 10 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 10 of the subtotal forms W-2 submitted.</p> <p>c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>d. Decimal point must be shown even when the entry is even dollars.</p>
11	R-If applicable	Nonqualified Plans.	<p>a. Required for employers reporting (1) distributions to employees from a nonqualified deferred compensation plan and/or a Section 457 plan and/or (2) amounts deferred under a nonqualified plan which became taxable during the tax year.</p> <p>b. The software should calculate a total money amount equal to the sum of the amounts reported in box 11 of the Forms W-2 for that report.</p>	<p>a. Must be either blank or a money amount.</p> <p>b. When an entry is made, the total must equal the total combined entries of box 11 of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 11 of the subtotal forms W-2 submitted.</p> <p>c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>).</p> <p>d. Decimal point must be shown even when the entry is even dollars.</p>

PART 2: PAPER FORM W-3

<u>W-3 BOX</u>	<u>REQUIRED-R OPTIONAL-O</u>	<u>NAME/ DESCRIPTION</u>	<u>STANDARDS FOR HUMAN RESOURCE DEPARTMENTS</u>	<u>SPECIFICATIONS AND EDITS FOR SOFTWARE DEVELOPERS</u>
12	R-If applicable	Deferred Compensation.	<ul style="list-style-type: none"> a. Required for all employers reporting employee contributions to qualified deferred compensation plans. b. The software should calculate a total money amount equal to the sum of the amounts with codes D through H and S reported in box 13 of the Forms W-2 for that report. 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made, the total must equal the total combined entries of box 13 code D, E, F, G, H and/or S of the W-2 forms when there is <u>no</u> subtotal form W-2 (excluding voided forms W-2), or the total combined entries of box 13 of the subtotal forms W-2 submitted. c. If not blank, must be dollars and cents, (numerics and decimal point <u>only</u>). d. Decimal point must be shown even when the entry is even dollars.
13	Eliminated	Eliminated	Entries are not needed for this box.	Entries are not needed for this box.
14	Eliminated	Eliminated	Entries are not needed for this box.	Entries are not needed for this box.
15	R-If applicable	Income Tax Withheld by a Third Party Payer.	<ul style="list-style-type: none"> a. Required if you have employees who had income tax withheld on third-party payments of sick pay. b. Entry should be numeric and cannot be negative. 	<ul style="list-style-type: none"> a. Must be either blank or a money amount. b. When an entry is made it must be dollars and cents, (numerics and decimal point <u>only</u>). c. Decimal point must be shown even when the entry is even dollars.

additional information on sick pay reporting, see IRS Publication 15-A, Supplemental Tax Guide. For additional information, please contact IRS for copies of its instructions and additional guidance (see Appendix B); **do not** contact SSA.



Where to File

All Forms W-3 and W-2 (Copy A) are processed at the Wilkes-Barre Data Operations Center. Completed forms should be sent to:

If United States Postal Service

Send to:

Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001
**(For certified mail use ZIP code
18769-0002)**

If Other Carrier (e.g. FedEx, UPS)

Send to:

Social Security Administration
Data Operations Center
Attn: AWR Process
1150 E. Mountain Drive
Wilkes-Barre, PA 18702-7997

When to File

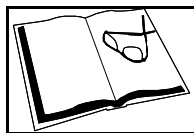
File TY 1997 Forms W-3 and Copy A of Forms W-2 with SSA by March 2, 1998.

Extension to file Copy A -- You may request an extension of time for filing Form W-2 (Copy A) with SSA by sending **IRS Form 8809, Request for Extension of Time to File Information Returns**, to the address shown on that form. To obtain this form, contact your local IRS office or call 1-800-829-3676. For your request to be considered, you must request the extension before the due date of the returns. If approved, you will have an additional 30 days to file. See **Form 8809** for more details.

NOTE: Terminating Business--If you terminate your business, you must provide Form (s) W-2 to your employees for the calendar year of termination by the date your final Form 941 is required to be filed. Additionally, you must file Forms W-2 with the SSA by the end of the second month after the end of the quarter for which the final Form 941 is filed.

CHAPTER 4

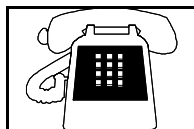
REPORTING EXAMPLES FOR PREPARING PAPER FORMS W-2, W-3 AND 941



Introduction

The purpose of this Chapter is to provide examples of proper/improper paper reporting to help employers understand and comply with the guidelines in this document. Submitting accurate annual wage reports by employers protects the public's investment in the Social Security trust funds including entitlement to benefits upon retirement, disability or death and the Medicare program. Included are examples of correctly prepared reports together with reports with errors that could have been prevented had the software used to prepare them complied with the specifications and edits. Documents covered include:

- o Form W-2, Wage and Tax Statement;
- o Form W-3, Transmittal of Wage and Tax Statements; and
- o Form 941, Employer's Quarterly Federal Tax Return.



Inquiries

Questions concerning the examples and information in this Chapter should be directed to the regional magnetic media specialists listed in Appendix A. However, tax questions or questions on tax law and regulations (including Form 941) must be addressed to the IRS Information Reporting Program Call Site at telephone number 304-263-8700 (Not a Toll Free Number). Suggestions for improving this Chapter should be directed in writing to the address on page 9.



Background

The method for computing an employee's and employer's liability for taxes owed under the FICA changed in TY 1991. Separate taxable wage bases for Social Security and Medicare were established with discrete tax rates. As a result, employers are required to compute employee withholding and employer matching contributions separately for each program. The wage bases and related tax rates are shown in the following table.

**Social Security and Medicare
Table of Tax Rates and Wage Bases
TY 1997**

<u>Federal Program</u>	<u>Taxable Earnings</u>	<u>Employee Withholding</u>	<u>Employer's Matching Contribution</u>	<u>Combined FICA Rate</u>
Social Security	\$ 65,400	6.20%	6.20%	12.40%
Medicare	All*	<u>1.45%</u>	<u>1.45%</u>	<u>02.90%</u>
Total FICA Rate		7.65%	7.65%	15.30%

* Beginning with TY 1994, there is no limit on the amount of wages and tips that are subject to Medicare tax.

Additional Information for State and Local Government Employers

For TY 1991 and thereafter, each State and local government employer can choose one of two methods to report instances where an employee earns (1) MQGE wages subject only to the Medicare tax and (2) wages subject to both Social Security and Medicare taxes (full-FICA) in the same TY for the same employer. This was a result of mandatory Social Security coverage of services by State and local government employees who are not members of their State or local government employers' qualified retirement system, in accordance with the Omnibus Budget Reconciliation Act of 1990, Public Law 101-508. That provision was effective for services performed July 2, 1991 and thereafter. Thus, at any time on or after such effective date, if a State or political subdivision employee becomes a member of such qualified retirement system, mandatory Social Security (full-FICA) coverage will cease. However, if the individual subsequently no longer participates in the qualified retirement system, mandatory Social Security (full-FICA) coverage will resume.

Employers are permitted the option of combined or split-reporting (see below). This applies to those State and local employees who were in a continuous employment relationship with the same employer (same EIN) during the year and who were paid wages by that employer that were subject only to Medicare tax for part of the year and that were subject to both Medicare and Social Security taxes (full-FICA) for another part of the year. Whenever this situation occurs, employers have the option of reporting employee wages and tax withheld on either a combined or split-report basis, as described below:

- o One Form W-2 for each employee, combining both the MQGE-only wages and the full-FICA wages for the TY; or
- o Separate Forms W-2 for each employee for the TY--one to report the MQGE-only wages and tax withheld and another to report the full-FICA wages and taxes withheld.

The case scenario which follows illustrates various reporting situations for the Cabot Cove School District in TY 1997. The scenario consists of the following information:

- o Part 1 : Employer Wage and Tax Deposit Data - Forms 941, W-3 and W-2;
- o Part 2 : Employee Wage and Tax Statements - Forms W-3 and W-2; and
- o Exhibits: Payroll Register Data Tables.

PART 1

EMPLOYER WAGE AND TAX DEPOSIT DATA

FORMS 941, W-3 AND W-2



Introduction

Part 1 contains four quarterly (and one annual mock-up of) IRS Forms 941, two Forms W-3, and eleven Forms W-2 from the Cabot Cove School District. This information illustrates how:

- o Cabot Cove reported its quarterly payroll and tax deposit data to IRS;
- o The annual sum of Cabot Cove's quarterly Form 941 data should agree with Cabot Cove's W-3 data for the same calendar year; and
- o Cabot Cove's W-3 data agree with employees' W-2 data.

The annual Form 941 mock-up (page 61) is used to show how you could use a Form 941 or other work sheet to check the accuracy of your reporting for the year. This form balances to (1) the sum of the four preceding quarterly Forms 941 (pages 57 through 60), (2) the sum of the two Forms W-3 Cabot Cove submitted to SSA (pages 62 and 68) and (3) the sum of the eleven Forms W-2 Cabot Cove issued (pages 63 through 67 and 69). In addition, the first Form W-3 (page 62) includes wage and tax data compiled under the combined reporting option elected by Cabot Cove, which consolidated both the MQGE and full-FICA wages earned by an employee based on that employee's continuing work in employment that became covered under FICA on July 1, 1997. The Form W-3 on page 62 also includes FICA-exempt employee wages compiled under the combined reporting option for wages not subject to FICA tax (employer's also have the option of grouping FICA-exempt wages and reporting those wages under a separate Form W-3). The second Form W-3 (page 68) contains MQGE wage and tax data only.

Cabot Cove's Forms 941, W-3 and W-2 contained in Part 1 are correct examples because they meet the following criteria.

Payroll Register versus Forms 941

- o Each quarterly Form 941 balances to (1) the sum of the corresponding employee payroll register data for each quarter (Exhibits, 2-1, 2-2, 2-3, and 2-4) and (2) the corresponding annual payroll register summary data (Exhibit 3) for each of the following:
 - a. Total wages, tips and other compensation and Federal income tax withheld;
 - b. Taxable Social Security wages and taxable Social Security tips; and
 - c. Taxable Medicare wages and tips.

- o In terms of Social Security and Medicare wages and tips, Cabot Cove limited tax withholdings to the applicable Social Security wage base (\$65,400) and Medicare wage base (total employee compensation) for TY 1997.
- o Regarding sick pay, Cabot Cove:
 - a. Treated sick pay payments correctly in terms of identifying wages representing (1) only the percentage of the premium cost of the sick pay plan borne by Cabot Cove as Federally taxable wages and (2) only the first six months of sick pay as taxable Social Security and Medicare wages; and
 - b. Properly adjusted the Social Security and Medicare taxes withheld on each applicable Form 941 (line 9) to reflect (1) employee taxes withheld and paid by a third-party payer and (2) uncollected employee Social Security and Medicare taxes.

Forms 941 versus Forms W-3

- o The employer's EIN is valid and the name and address are correct on each type of form; both are reported consistently.
- o The following data from the Forms W-3 balance to the annual sum of the four quarterly Forms 941:
 - a. Wages, tips and other compensation and Federal income tax withheld;
 - b. Social Security wages and Social Security tips; and
 - c. Medicare wages and tips.
- o Regarding the Form W-3, Cabot Cove properly reported the income tax withheld by a third-party payer in Box 15 of the Form W-3, based on sick payments made to an employee by a third-party.

Forms W-3 versus Forms W-2

- o Each Form W-3 identifies the proper type of employment in Box b for the accompanying Forms W-2.
- o The sum of all wages and tax withheld on the Forms W-2 balance to the aggregate wages and tax withheld on the Forms W-3.

- o Regarding the Forms W-2, all:
 - a. SSNs are valid;
 - b. Employee names are properly printed (i.e., first, middle initial, last) and are consistent with the names printed on their Social Security cards (see Exhibit 1);
 - c. EINs are valid and both the EIN and employer address are consistently reported on each form; and
 - d. Money amount boxes are properly prepared because they do not contain alpha entries (except for Box 13), negative amounts, special characters or punctuation.
- o In terms of Social Security and Medicare wages and tips, Cabot Cove limited tax withholdings on the Forms W-2 to the applicable Social Security wage base (\$65,400) and Medicare wage base (total employee compensation) for TY 1997.
- o Regarding Social Security and Medicare taxes withheld, the money amounts reported reflect the proper withholding rates of 6.2 percent and 1.45 percent respectively.
- o Regarding Group-Term Life Insurance (GTLI) over \$50,000, Cabot Cove:
 - a. Used the Form W-2 to report the taxable cost of GTLI over \$50,000; and
 - b. Treated the cost of GTLI over \$50,000 as income and withheld only the FICA tax on that income for current (not retired) employees.
- o Cabot Cove properly reported nonqualified deferred compensation by:
 - a. Including on the Form W-2 contributions to the plan¹ in Boxes 3 and 5 and reporting the respective tax withholdings on those contributions in boxes 4 and 6;
 - b. Including on the Form W-2 distributions from the plan as income in box 1 and reporting Federal income tax withholding on those distributions in box 2; and
 - c. Reporting the contributions to and distributions from the plan as one money amount in box 11 on Forms W-2 and W-3.

¹Contributions that became taxable during the year based on the later of (1) when the services giving rise to the deferral are performed or (2) when there is no substantial forfeiture risk of rights to the deferred amounts.

Combined W-3 for full-FICA W-2s, FICA-Exempt W-2, and optional combined MQGE and full-FICA W-2

a Control number		For Official Use Only OMB No. 1545-0008			
b Kind of Payer	941	Military	943	1 Wages, tips, other compensation	2 Federal income tax withheld
	<input checked="checked" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	475659.00	94966.80
CT-1	Hshld.	Medicare	govt. emp.	3 Social security wages	4 Social security tax withheld
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	342709.00	21261.91
c Total number of statements		d Establishment number		5 Medicare wages and tips	6 Medicare tax withheld
10				459659.00	6655.27
e Employer's identification number				7 Social security tips	8 Allocated tips
55-5678910				4035.00	
f Employer's name				9 Advance EIC payments	10 Dependent care benefits
CABOT COVE SCHOOL				11 Nonqualified plans	12 Deferred Compensation
123 EDUCATION WAY				59600.00	
BALTIMORE, MD 21201				13	
g Employer's address and ZIP code				14	
h Other EIN used this year				15 Income tax withheld by third-party payer	
				2240.00	
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature _____ Title _____ Date _____

Telephone number () _____

Form **W-3 Transmittal of Wage and Tax Statements 1997**

Department of the Treasury
Internal Revenue Service

Active/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 45229.00		2 Federal income tax withheld 9045.80		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 45229.00		4 Social security tax withheld 2804.20		
			5 Medicare wages and tips 45229.00		6 Medicare tax withheld 655.82		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 699-01-0101			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) ELIZABETH L STROSNIDER 567 ELM RD BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1		
			13 See Instrs. for box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax	

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 see separate instructions.

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

Active/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 35550.00		2 Federal income tax withheld 7110.00		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 31515.00		4 Social security tax withheld 2204.10		
			5 Medicare wages and tips 35550.00		6 Medicare tax withheld 515.48		
			7 Social security tips 4035.00		8 Allocated tips		
d Employee's social security number 234-56-7890			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) DIEGO GARCIA-y-VEGA 432 SMITH AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state I.D. No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax	

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Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

Active/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 136000.00		2 Federal income tax withheld 27200.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 65400.00		4 Social security tax withheld 4054.80	
			5 Medicare wages and tips 136000.00		6 Medicare tax withheld 1972.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 567-89-0123			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) TAE-JIN KIM 567 EASTERN AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

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Wage and Tax

W-2 Statement 1997

Copy A For Social Security Administration

Active/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 27383.00		2 Federal income tax withheld 5476.60	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 25783.00		4 Social security tax withheld 1598.55	
			5 Medicare wages and tips 25783.00		6 Medicare tax withheld 373.85	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 456-78-9012			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) JOSE SCHAEFFER 901 AIRY WAY BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13 J 7466.67		14 Other SK PAY - Acme Ins. Co.	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

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Wage and Tax

W-2 Statement 1997

Copy A For Social Security Administration

Active/full-FICA

a Control number	22222	Void	<input type="checkbox"/>				For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910				1 Wages, tips, other compensation 25172.00				2 Federal income tax withheld 5034.40			
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201				3 Social security wages 25172.00				4 Social security tax withheld 1560.66			
				5 Medicare wages and tips 25172.00				6 Medicare tax withheld 364.99			
				7 Social security tips				8 Allocated tips			
d Employee's social security number 678-90-1234				9 Advance EIC payment				10 Dependent care benefits			
e Employee's name (first, middle initial, last) LOIS G SHEPPARD 945 BOWSER ST. BALTIMORE, MD 21201				11 Nonqualified plans				12 Benefits included in box 1			
				13 See instrs for Box 13				14 Other			
				15 Statutory employee <input type="checkbox"/>				Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>	Hshld. emp. <input type="checkbox"/>
f Employee's address and ZIP code											
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax					

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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

For Paperwork Reduction Act Notice,
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Active/(MQGE/full-FICA)

a Control number	22222	Void	<input type="checkbox"/>				For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910				1 Wages, tips, other compensation 60500.00				2 Federal income tax withheld 12100.00			
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201				3 Social security wages 30250.00				4 Social security tax withheld 1875.50			
				5 Medicare wages and tips 60500.00				6 Medicare tax withheld 877.25			
				7 Social security tips				8 Allocated tips			
d Employee's social security number 023-45-6789				9 Advance EIC payment				10 Dependent care benefits			
e Employee's name (first, middle initial, last) JOHN R McNAMARA 800 CLARK RD. SEVERN, MD 21144				11 Nonqualified plans				12 Benefits included in box 1			
				13 See instrs for Box 13				14 Other			
				15 Statutory employee <input type="checkbox"/>				Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>	Hshld. emp. <input type="checkbox"/>
f Employee's address and ZIP code											
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax					

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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement 1997
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For Paperwork Reduction Act Notice,
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Active/FICA-exempt

a Control number	22222	Void	For Official Use Only OMB No. 1545-0008						
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 56000.00		2 Federal income tax withheld 11200.00				
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages		4 Social security tax withheld				
			5 Medicare wages and tips		6 Medicare tax withheld				
			7 Social security tips		8 Allocated tips				
d Employee's social security number 701-23-4567			9 Advance EIC payment		10 Dependent care benefits				
e Employee's name (first, middle initial, last) MARY V SMITH 1205 TOWER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1				
			13 See instrs for Box 13		14 Other				
			15 Statutory employee	Deceased	Pension plan	Legal rep	Hshld. emp.	Subtotal	Deferred compensation
f Employee's address and ZIP code			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax			

Wage and Tax
W-2 Statement
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Department of the Treasury-Internal Revenue Service
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1997

Active/full-FICA

a Control number	22222	Void	For Official Use Only OMB No. 1545-0008						
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 50150.00		2 Federal income tax withheld 10000.00				
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 50150.00		4 Social security tax withheld 3109.30				
			5 Medicare wages and tips 50150.00		6 Medicare tax withheld 727.18				
			7 Social security tips		8 Allocated tips				
d Employee's social security number 666-78-9012			9 Advance EIC payment		10 Dependent care benefits				
e Employee's name (first, middle initial, last) THOMAS J MASON 911 BANK ST. BALTIMORE, MD 21224			11 Nonqualified plans		12 Benefits included in box 1				
			13 See instrs for Box 13 C 150.00		14 Other				
			15 Statutory employee	Deceased	Pension plan	Legal rep	Hshld. emp.	Subtotal	Deferred compensation
f Employee's address and ZIP code			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax			

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service
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see separate instructions.

1997

Retired/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 39000.00		2 Federal income tax withheld 7800.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 65400.00		4 Social security tax withheld 4054.80	
			5 Medicare wages and tips 80600.00		6 Medicare tax withheld 1168.70	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 719-54-3210			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) NICOLE CRAIG 657 JOE RD. BALTIMORE, MD 21202			11 Nonqualified plans 59600.00		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

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Wage and Tax

W-2 Statement 1997

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Retired/full-FICA

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 675.00		2 Federal income tax withheld	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 675.00		4 Social security tax withheld	
			5 Medicare wages and tips 675.00		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 543-21-0987			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) SAMUEL L JOHNSON 1122 CHERRY LANE RD. SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13 C 675.00 M 41.85 N 9.79		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

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Wage and Tax

W-2 Statement 1997

Copy A For Social Security Administration

W-3 for MQGE W-2s

a Control number		For Official Use Only OMB No. 1545-0008			
b	Kind of Payer	941 <input type="checkbox"/>	Military <input type="checkbox"/>	943 <input type="checkbox"/>	1 Wages, tips, other compensation 54000.00
		CT-1 <input type="checkbox"/>	Hshld. <input type="checkbox"/>	Medicare govt. emp. <input checked="" type="checkbox"/>	2 Federal income tax withheld 10800.00
c Total number of statements 1		d Establishment number		5 Medicare wages and tips 54000.00	6 Medicare tax withheld 783.00
e Employer's indentification number 55-5678910				7 Social security tips	8 Allocated tips
f Employer's name CABOT COVE SCHOOL 123 EDUCATION WAY BALTIMORE, MD 21201				9 Advance EIC payments	10 Dependent care benefits
				11 Nonqualified plans	12 Deferred Compensation
				13	
				14	
g Employer's address and ZIP code					
h Other EIN used this year				15 Income tax withheld by third-party payer	
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature _____ Title _____ Date _____

Telephone number () _____

Form **W-3 Transmittal of Wage and Tax Statements 1997**

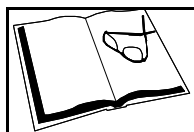
Department of the Treasury
Internal Revenue Service

a Control number	22222	Void	<input type="checkbox"/>				For Official Use Only OMB No. 1545-0008								
b Employer's identification number 55-5678910				1 Wages, tips, other compensation 54000.00				2 Federal income tax withheld 10800.00							
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201				3 Social security wages				4 Social security tax withheld							
				5 Medicare wages and tips 54000.00				6 Medicare tax withheld 783.00							
				7 Social security tips				8 Allocated tips							
d Employee's social security number 345-67-8901				9 Advance EIC payment				10 Dependent care benefits							
e Employee's name (first, middle initial, last) ALFREDO G MARANO 123 MAPLE STREET BALTIMORE, MD 21201				11 Nonqualified plans				12 Benefits included in box 1							
				13 See instrs for Box 13				14 Other							
				15 Statutory employee <input type="checkbox"/>				Deceased <input type="checkbox"/>		Pension plan <input type="checkbox"/>		Legal rep <input type="checkbox"/>		Hshld. emp. <input type="checkbox"/>	
f Employee's address and ZIP code															
16 State		Employer's state ID No		17 State wages tips etc		18 State income tax		19 Locality name		20 Local wages tips etc		21 Local income tax			
.....				

PART 2

EMPLOYER WAGE AND TAX STATEMENTS

FORMS W-3 AND W-2



Introduction

Part 2 contains Forms W-2 and various supporting Forms W-3. This information illustrates, on pages 73 through 87, correct versus incorrect reporting for:

- o Employee names and SSNs;
- o An EIN;
- o Social Security wages and taxes;
- o Medicare wages and taxes;
- o FICA-Exempt wages and taxes;
- o GTLI over \$50,000;
- o Third-party sick pay; and
- o Nonqualified deferred compensation.

Part 2 also illustrates both the split and combined reporting options for a State or Local Government employee who earned wages subject to the Medicare tax only, then became covered for full-FICA effective July 1, 1997.

- o Two sets of W-2/W-3 forms (pages 88-89) illustrate the split reporting option with wages earned under each type of employment. The data on each Form W-2 is separately isolated for that employee on a corresponding Form W-3 to illustrate how Cabot Cove should incorporate the Form W-2 data on separate Forms W-3, each reflecting a different type of employment.
- o One set of Forms W-2/W-3 (page 90) illustrates the combined reporting option and isolates how the Form W-3 should reflect only one type of employment (i.e., 941).

FORM W-2: CORRECT vs. INCORRECT REPORTING - COMMON ERRORS

A. Elizabeth Lee Strosnider is an employee subject to full-FICA. No tips were earned. The following W-2 facsimile illustrates the correct way to prepare the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 45229.00		2 Federal income tax withheld 9045.80		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 45229.00		4 Social security tax withheld 2804.20		
			5 Medicare wages and tips 45229.00		6 Medicare tax withheld 655.82		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 699-01-0101			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) ELIZABETH L STROSNIDER 567 ELM RD. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages, tips, etc.	18 State income tax	19 Locality name	20 Local wages, tips, etc.	21 Local income tax	

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

The following W-2 for Elizabeth Lee Strosnider is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 45229.00		2 Federal income tax withheld 9045.80		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 45229.00		4 Social security tax withheld 2804.20		
			5 Medicare wages and tips 45229.00		6 Medicare tax withheld 655.82		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 555-67-8910			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) BETTY L STROSNIDER 567 ELM RD. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

The W-2 above is incorrect because the preparer recorded the EIN in box d, "Employee's Social Security number" and used the employee's nickname in box e, "Employee's name" instead of the proper first name. The name used in box e should be same as the name shown on the Social Security card. Recording an incorrect or improper name may result in SSA being unable to credit the wages to the employee's Social Security record. A typical error, as in this example, occurs when the preparer substitutes a nickname for the proper first name. Incorrect SSNs are also a common problem. Preparers frequently transpose digits, use another person's SSN, enter the EIN instead of the SSN or fail to record the complete SSN.

B. Diego Garcia-y-Vega is an employee subject to full-FICA. Unallocated tips equalled \$4,035.00.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 35550.00		2 Federal income tax withheld 7110.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 31515.00		4 Social security tax withheld 2204.10	
			5 Medicare wages and tips 35550.00		6 Medicare tax withheld 515.48	
			7 Social security tips 4035.00		8 Allocated tips	
d Employee's social security number 234-56-7890			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) DIEGO GARCIA-y-VEGA 432 SMITH AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service

Wage and Tax

For Paperwork Reduction Act Notice,

W-2 Statement

1997

see separate instructions.

Copy A For Social Security Administration

The following W-2 for Diego Garcia-y-Vega is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 35550.00		2 Federal income tax withheld 7110.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 31515.00		4 Social security tax withheld 2719.58	
			5 Medicare wages and tips 35550.00		6 Medicare tax withheld	
			7 Social security tips 4035.00		8 Allocated tips	
d Employee's social security number 234-56-7890			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) DIEGO GARCIA-y-VEGA 432 SMITH AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service

Wage and Tax

For Paperwork Reduction Act Notice,

W-2 Statement

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see separate instructions.

Copy A For Social Security Administration

The W-2 above is incorrect because the preparer neglected to calculate the Medicare tax liability and failed to apply the correct tax rate to Social Security wages and tips (by applying the combined Social Security/Medicare tax rate of 7.65 percent to the total Social Security wages instead of the correct Social Security rate of 6.2 percent). The taxes should have been calculated as follows:

Social Security tax Withheld : (\$31,515.00[box 3] + \$4035.00[box 7]) x 6.2% = 2204.10

Medicare tax withheld : (\$35,550.00[box 5]) x 1.45% = 515.48

C. Alfredo Giuseppe Richardo Marano is an employee subject to Medicare taxes only.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 54000.00		2 Federal income tax withheld 10800.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips 54000.00		6 Medicare tax withheld 783.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 345-67-8901			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) ALFREDO G MARANO 123 MAPLE ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
					Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>
						Deferred compensation <input type="checkbox"/>
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax

W-2 Statement

1997

Copy A For Social Security Administration

The following W-2 for Alfredo Giuseppe Richardo Marano is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 54000.00		2 Federal income tax withheld 10800.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 54000.00		4 Social security tax withheld 3348.00	
			5 Medicare wages and tips 54000.00		6 Medicare tax withheld 783.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 345-67-8901			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) ALFREDO R MARANO 123 MAPLE ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
					Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>
						Deferred compensation <input type="checkbox"/>
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax

W-2 Statement

1997

Copy A For Social Security Administration

In this example, the preparer erroneously reported Social Security wages and taxes instead of only reporting Medicare wages and taxes. The preparer also used the wrong middle initial in box e.

D. Tae-Jin Kim is an employee subject to full-FICA.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 136000.00		2 Federal income tax withheld 27200.00		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 65400.00		4 Social security tax withheld 4054.80		
			5 Medicare wages and tips 136000.00		6 Medicare tax withheld 1972.00		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 567-89-0123			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) TAE-JIN KIM 567 EASTERN AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

The following W-2 for Tae-Jin Kim is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 136000.00		2 Federal income tax withheld 27200.00		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 65400.00		4 Social security tax withheld 4054.80		
			5 Medicare wages and tips 65400.00		6 Medicare tax withheld 948.30		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 567-89-0123			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) KIM TAE-JIN 567 EASTERN AVE. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax
W-2 Statement
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The W-2 above is incorrect because the preparer failed to recognize that the Medicare wage base differs from the Social Security wage base. The preparer inserted the Social Security wage base figure in the Medicare wages and tips box and calculated the Medicare tax amount based on the Social Security wage base figure. The preparer also erred by transposing the employee's first and last name in box e.

E. Mary V. Smith is an employee subject to Federal taxes only.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 56000.00		2 Federal income tax withheld 11200.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 701-23-4567			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) MARY V SMITH 1205 TOWER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax
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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement
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1997

For Paperwork Reduction Act Notice,
see separate instructions.

The following W-2 for Mary V. Smith is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 56000.00		2 Federal income tax withheld 11200.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 56000.00		4 Social security tax withheld 3472.00	
			5 Medicare wages and tips 56000.00		6 Medicare tax withheld 812.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 701-23-4567			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) MARY V SMITH 1205 TOWER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax
.....						

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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

For Paperwork Reduction Act Notice,
see separate instructions.

In this example the preparer erroneously reported Social Security and Medicare Wages and taxes instead of only Wages, tips and other compensation and Federal income tax withheld. Mary V. Smith is a FICA-Exempt employee.

REPORTING GROUP-TERM LIFE INSURANCE OVER \$50,000.

A. Thomas J. Mason is an employee subject to full-FICA. Mason's TY 1997 wages were \$50,000. Mason's insurance coverage is \$150,000. He is 41 years old. He pays \$54 per year for his coverage. The calculated benefit amount to include as taxable income to report for TY 1997 related to GTLI over \$50,000 is \$150.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 50150.00		2 Federal income tax withheld 10000.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 50150.00		4 Social security tax withheld 3109.30	
			5 Medicare wages and tips 50150.00		6 Medicare tax withheld 727.18	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 666-78-9012			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) THOMAS J MASON 911 BANK ST. BALTIMORE, MD 21224			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13 C 150.00		14 Other	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
			Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>	Deferred compensation <input type="checkbox"/>	
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax

W-2 Statement

1997

Copy A For Social Security Administration

The following W-2 for Thomas J. Mason is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 50000.00		2 Federal income tax withheld 10000.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 50000.00		4 Social security tax withheld 3100.00	
			5 Medicare wages and tips 50000.00		6 Medicare tax withheld 725.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 666-78-9012			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) THOMAS J MASON 911 BANK ST. BALTIMORE, MD 21224			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
			Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>	Deferred compensation <input type="checkbox"/>	
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax

W-2 Statement

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Copy A For Social Security Administration

The W-2 above is incorrect because the preparer failed to include the benefit amount of GTLI over \$50,000 in the FICA wages and in the wages, tips, other compensation. The preparer also failed to withhold the FICA taxes for the cost of GTLI over \$50,000. GTLI is subject to FICA tax withholding only. It is subject to federal income tax, but it is not subject to federal income tax withholding. The preparer also failed to disclose the GTLI in Box 13 ("code C" is used for GTLI) of the Form W-2.

B. Samuel L. Johnson is a 58 year old retired employee. However he elected to continue his GTLI coverage through Cabot Cove. His insurance coverage is \$125,000. The calculated benefit amount as taxable income related to GTLI over \$50,000 is \$675.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 675.00		2 Federal income tax withheld	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 675.00		4 Social security tax withheld	
			5 Medicare wages and tips 675.00		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 543-21-0987			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) SAMUEL L JOHNSON 1122 CHERRY LANE RD. SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13 C 675.00 M 41.85 N 9.79		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

The following W-2 for Samuel L. Johnson is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 675.00		2 Federal income tax withheld 135.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 543-21-0987			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) SAMUEL L JOHNSON 1122 CHERRY LANE RD. SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service
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see separate instructions.

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

In this example, the preparer failed to (1) report the GTLI as Social Security and Medicare wages and (2) disclose the GTLI (using "code C") and uncollected Social Security and Medicare taxes (using "codes M and N" respectively) in Box 13. In addition, the preparer erroneously reported Federal income tax withheld (reported in Box 2).

NONQUALIFIED DEFERRED COMPENSATION

Cabot Cove contributes 2 percent of Nicole Craig's salary to a nonqualified deferred compensation plan (NQDCP). Nicole is not entitled to the total deferred amount under the NQDCP until retirement.

- Nicole retired June 30, 1997 and earned \$30,000 in salary up to that point.
- Cabot Cove contributed \$600 to Nicole's NQDCP in 1997; Cabot Cove's aggregate contributions to Nicole's NQDCP were \$50,600.
- Upon retirement, Nicole elects to withdraw \$1,500/month from the NQDCP and withdraws a total of \$9,000 from the plan in TY 97.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 39000.00		2 Federal income tax withheld 7800.00		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 65400.00		4 Social security tax withheld 4054.80		
			5 Medicare wages and tips 80600.00		6 Medicare tax withheld 1168.70		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 719-54-3210			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) NICOLE CRAIG 657 JOE RD. BALTIMORE, MD 21202			11 Nonqualified plans 59600.00		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	
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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

For Paperwork Reduction Act Notice,
see separate instructions.

The following W-2 for Nicole Craig is incorrect. Please review these errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 30000.00		2 Federal income tax withheld 6000.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 30000.00		4 Social security tax withheld 1860.00	
			5 Medicare wages and tips 30000.00		6 Medicare tax withheld 435.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 719-54-3210			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) NICOLE CRAIG 657 JOE RD. BALTIMORE, MD 21202			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Wage and Tax
W-2 Statement
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For Paperwork Reduction Act Notice,
see separate instructions.

The W-2 above is incorrect because the preparer failed to (1) include the \$50,600 deferred under the NQDCP in Box 3 and Box 5, (2) withhold Social Security and Medicare taxes on the \$50,600 deferral, and (3) enter in Box 11 one money amount (\$59,600) representing both the \$9,000 distribution from and \$50,600 in contributions to the NQDCP. Any amount deferred under a NQDCP should be included as Social Security and Medicare wages as of the later of when the services are performed or when there is no substantial forfeiture risk of the rights to the deferred amount. The preparer also failed to (1) include the disbursed amount (\$9,000) from the NQDCP in Box 1 (Wages, tips and other compensation) and (2) withhold Federal income tax on the \$9,000 disbursement.

THIRD-PARTY SICK PAY REPORTING

A. Jose Schaeffer is an employee subject to full-FICA. He was actively employed as a bus driver until May 30, 1997 when he was injured in an automobile accident. From June 1 until the end of the tax year, Mr. Schaeffer received sick pay from the ACME Insurance Company (EIN 98-7654321). ACME did not pay the employer's portion of FICA nor assume responsibility for reporting sick pay wages on behalf of the employer. Therefore, Cabot Cove is responsible for issuing the Form W-2 to Mr. Schaeffer. Cabot Cove received the following annual benefit notification from ACME on January 9, 1998:

ACME Insurance Company
Statement of Benefit Payments for Jose Schaeffer (456-78-9012)
Tax Year 1997

Portion of benefit plan funded by employer 60 percent
Benefit payments received (first six months) \$16,000.00
Remaining payments received for tax year 1996 \$ 2,666.67

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 27383.00		2 Federal income tax withheld 5476.60		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 25783.00		4 Social security tax withheld 1598.55		
			5 Medicare wages and tips 25783.00		6 Medicare tax withheld 373.85		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 456-78-9012			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) JOSE SCHAEFFER 901 AIRY WAY BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13 J 7466.67		14 Other SK PAY-Acme Ins. Co.		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service
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see separate instructions.

**Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration**

The following W-2 for Jose Schaeffer is incorrect. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 34849.67		2 Federal income tax withheld 6969.93		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 34849.67		4 Social security tax withheld 2160.68		
			5 Medicare wages and tips 34849.67		6 Medicare tax withheld 505.32		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 456-78-9012			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) JOSE SCHAEFFER 901 AIRY WAY BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in Box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

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Department of the Treasury-Internal Revenue Service
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see separate instructions.

Wage and Tax

W-2 Statement 1997

Copy A For Social Security Administration

The W-2 above is incorrect because the employer failed to recognize that (1) only sick payments received in the first six months are FICA taxable and (2) only the sick payments that relate to the percentage of the premium cost borne by Cabot Cove Schools are FICA taxable. This, in turn, resulted in a failure to disclose in Box 13, the non-taxable portion of the sick payments (representing the 40 percent employee contribution to the sick pay plan). The correct Social Security and Medicare tax calculations (and the respective amounts for each wage type) are shown below.

Social Security/Medicare wages

(Wages paid [\$16,183] + (60% of Sick Payments received in first 6 months [.6 x \$16,000]) = \$25,783

Social Security Tax Withheld

(Social Security Wages [box 3, \$25,783]) x 6.2% = \$1,598.55

Medicare Tax Withheld

(Medicare Wages [box 5, \$25,783]) x 1.45% = \$373.85

Wages, Tips and Other Compensation

(Wages paid[\$16,183]) + (60% of Sick Payments received [.6 x \$18,666.67]) = \$27,383

Box 13 (Code J)

40% x Sick Payments received (\$18,666.67) = \$7,466.67

Box 15 of the W-3 prepared by Cabot Cove for Jose Schaeffer should reflect the total amount of income tax withheld by ACME, even though the amount is included in Box 2, "Federal income tax withheld." An example of the correct W-3 is shown below.

a Control number		For Official Use Only OMB No. 1545-0008			
b		941 Military 943		1 Wages, tips, other compensation	2 Federal income tax withheld
Kind <input checked="checked" type="checkbox"/> X <input type="checkbox"/> <input type="checkbox"/>		CT-1 Hshld. Medicare govt. emp. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		27383.00	5476.60
				3 Social security wages	4 Social security tax withheld
				25783.00	1598.55
c Total number of statements 1		d Establishment number		5 Medicare wages and tips 25783.00	6 Medicare tax withheld 373.85
e Employer's identification number 55-5678910				7 Social security tips	8 Allocated tips
f Employer's name CABOT COVE SCHOOL				9 Advance EIC payments	10 Dependent care benefits
123 EDUCATION WAY BALTIMORE, MD 21201				11 Nonqualified plans	12 Deferred Compensation
				13	
				14	
g Employer's address and ZIP code					
h Other EIN used this year				15 Income tax withheld by third-party payer 2240.00	
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature _____ Title _____ Date _____

Telephone number () _____

Form **W-3 Transmittal of Wage and Tax Statements 1997**

Department of the Treasury
Internal Revenue Service

Because Acme is required to report payments for disability or sickness made to employees on IRS Form 941 (Employer's Quarterly Federal Tax Return), to ensure that both IRS and SSA records are in balance Acme must send SSA a "dummy" W-2 showing the amount of sick pay given to Mr. Schaeffer. Should Acme neglect to prepare a "dummy" W-2, their 941's will not agree with their W-2s. Failure to file a "dummy" W-2 is a contributing factor to the SSA/IRS reconciliation process, which creates a tremendous workload for employers and the Federal Government. PLEASE NOTE: "Dummy" W-2s and their accompanying Form W-3 must not be filed on magnetic media - use only paper forms. Acme's "dummy" W-2 should look like the following example:

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 98-7654321			1 Wages, tips, other compensation 18666.67		2 Federal income tax withheld 2240.00	
c Employer's name, address, and ZIP code ACME INSURANCE COMPANY ROAD RUNNER AVE. COYOTE, MD 21162			3 Social security wages 9600.00		4 Social security tax withheld 595.20	
			5 Medicare wages and tips 9600.00		6 Medicare tax withheld 139.20	
			7 Social security tips		8 Allocated tips	
d Employee's social security number			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) THIRD PARTY SICK PAY			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service

**For Paperwork Reduction Act Notice,
see separate instructions.**

**Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration**

The separate W-3 filed with the "dummy" W-2 should look like the following example. Note that only boxes b, c, e, f, g, 1, 2, 3, 4, 5, and 6 have entries.

a Control number		For Official Use Only OMB No. 1545-0008			
b		941 <input checked="" type="checkbox"/> Military 943 <input type="checkbox"/> Kind of Payer CT-1 <input type="checkbox"/> Hshld. <input type="checkbox"/> Medicare govt. emp. <input type="checkbox"/>		1 Wages, tips, other compensation 18666.67	2 Federal income tax withheld 2240.00
				3 Social security wages 9600.00	4 Social security tax withheld 595.20
c Total number of statements 1		d Establishment number		5 Medicare wages and tips 9600.00	6 Medicare tax withheld 139.20
e Employer's identification number 98-7654321				7 Social security tips	8 Allocated tips
f Employer's name ACME INSURANCE COMPANY ROAD RUNNER AVENUE COYOTE, MD 21162				9 Advance EIC payments	10 Dependent care benefits
				11 Nonqualified plans	12 Deferred Compensation
				13	
				14	
g Employer's address and ZIP code					
h Other EIN used this year				15 Income tax withheld by third-party payer	
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature	Title	Date
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Telephone number ()

Form **W-3 Transmittal of Wage and Tax Statements 1997**

Internal Revenue Service

B. Lois Germaine Sheppard is an employee subject to full-FICA. She was actively employed as a school crossing guard until November 30, 1997 when she slipped on some ice and broke her leg. From December 1 until the end of the tax year she received sick pay from the ACME Insurance Company. Cabot Cove paid 100 percent of the premiums on the policy for Ms. Sheppard. ACME paid Ms. Sheppard \$2,000 in sick pay and assumed responsibility for paying Cabot Cove's share of FICA taxes and reporting the sick pay wages.

Correct W-2 Form from Cabot Cove Schools

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 25172.00		2 Federal income tax withheld 5034.40	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 25172.00		4 Social security tax withheld 1560.66	
			5 Medicare wages and tips 25172.00		6 Medicare tax withheld 364.99	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 678-90-1234			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) LOIS G SHEPPARD 945 BOWSER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
			Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>	Deferred compensation <input type="checkbox"/>	
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax
.....						

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service

**Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration**

**For Paperwork Reduction Act Notice,
see separate instructions.**

Ms. Sheppard's W-2 from Acme Insurance Company should look like the following:

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 98-7654321			1 Wages, tips, other compensation 2000.00		2 Federal income tax withheld 400.00	
c Employer's name, address, and ZIP code ACME INSURANCE COMPANY ROAD RUNNER AVE. COYOTE, MD 21162			3 Social security wages 2000.00		4 Social security tax withheld 124.00	
			5 Medicare wages and tips 2000.00		6 Medicare tax withheld 29.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 678-90-1234			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) LOIS G SHEPPARD 945 BOWSER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other Sick Pay Furnished under an Agency Agreement with Your Employer	
f Employee's address and ZIP code			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
			Hshld. emp. <input type="checkbox"/>	Subtotal <input type="checkbox"/>	Deferred compensation <input type="checkbox"/>	
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax
.....						

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Department of the Treasury-Internal Revenue Service

**Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration**

**For Paperwork Reduction Act Notice,
see separate instructions.**

The following W-2 illustrates a common mistake made by third-party insurers. Please review these common errors and the discussion of these errors below the W-2.

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 2000.00		2 Federal income tax withheld 400.00		
c Employer's name, address, and ZIP code ACME INSURANCE COMPANY ROAD RUNNER AVE. COYOTE, MD 21162			3 Social security wages 2000.00		4 Social security tax withheld 124.00		
			5 Medicare wages and tips 2000.00		6 Medicare tax withheld 29.00		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 678-90-1234			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) LOIS G SHEPPARD 945 BOWSER ST. BALTIMORE, MD 21201			11 Nonqualified plans		12 Benefits included in box 1		
			13 See instrs for Box 13		14 Other Sick Pay Furnished under an Agency Agreement with Your Employer		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	
.....	

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Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

For Paperwork Reduction Act Notice,
see separate instructions.

The W-2 above is incorrect because the third-party payer used the employer's EIN instead of their own when reporting. This will cause the Form 941 for both the third-party and the employer to be out of balance with their respective W-2/W-3 submissions.

REPORTING AN EMPLOYEE TYPE OF EMPLOYMENT CHANGE

John R. McNamara's work became covered for full-FICA effective July 1, 1997--instead of Medicare-only coverage earlier in the year. The following Forms W-2 and W-3 illustrate split reporting for Mr. McNamara by Cabot Cove.

Form W-2 for MQGE Wages from January 1, 1997 to June 30, 1997

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 30250.00		2 Federal income tax withheld 6050.00		
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips 30250.00		6 Medicare tax withheld 438.62		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 023-45-6789			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) JOHN R McNAMARA 800 CLARK RD SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

Wage and Tax
W-2 Statement
Copy A For Social Security Administration

1997

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service
For Paperwork Reduction Act Notice,
see separate instructions.

Form W-3 for MQGE Wages

a Control number		For Official Use Only OMB No. 1545-0008			
b <div style="display: flex; justify-content: space-around;"> <div>941 Kind of Payer <input type="checkbox"/></div> <div>Military <input type="checkbox"/></div> <div>943 Medicare govt. emp. <input checked="" type="checkbox"/></div> </div>		1 Wages, tips, other compensation 30250.00	2 Federal income tax withheld 6050.00		
		3 Social security wages	4 Social security tax withheld		
c Total number of statements 1	d Establishment number	5 Medicare wages and tips 30250.00	6 Medicare tax withheld 438.62		
e Employer's identification number 55-5678910		7 Social security tips	8 Allocated tips		
f Employer's name CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201 g Employer's address and ZIP code		9 Advance EIC payments	10 Dependent care benefits		
		11 Nonqualified plans	12 Deferred Compensation		
		13			
		14			
h Other EIN used this year		15 Income tax withheld by third-party payer			
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature	Title	Date
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Telephone number () _____

Form **W-3 Transmittal of Wage and Tax Statements 1997** Department of the Treasury
Internal Revenue Service

Wages paid July 1, 1997 to December 31, 1997 subject to full FICA tax.

Form W-2 for wages subject to full FICA (from July 1, 1997 to December 31, 1997)

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 30250.00		2 Federal income tax withheld 6050.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 30250.00		4 Social security tax withheld 1875.50	
			5 Medicare wages and tips 30250.00		6 Medicare tax withheld 438.62	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 023-45-6789			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) JOHN R McNAMARA 800 CLARK RD SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service

Wage and Tax
W-2 Statement 1997
Copy A For Social Security Administration

For Paperwork Reduction Act Notice,
see separate instructions.

Form W-3 for Wages subject to full FICA

a Control number		For Official Use Only OMB No. 1545-0008			
b		1 Wages, tips, other compensation		2 Federal income tax withheld	
941 Military 943 Kind of Payer <input checked="" type="checkbox"/> <input type="checkbox"/> CT-1 Hshld. Medicare govt. emp. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		30250.00		6050.00	
		3 Social security wages		4 Social security tax withheld	
		30250.00		1875.50	
c Total number of statements 1		d Establishment number		5 Medicare wages and tips 30250.00	
e Employer's identification number 55-5678910		7 Social security tips		6 Medicare tax withheld 438.62	
f Employer's name CABOT COVE SCHOOLS		9 Advance EIC payments		8 Allocated tips	
..... 123 EDUCATION WAY BALTIMORE, MD 21201		11 Nonqualified plans		10 Dependent care benefits	
		13		12 Deferred Compensation	
		14			
g Employer's address and ZIP code					
h Other EIN used this year		15 Income tax withheld by third-party payer			
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature _____ Title _____ Date _____

Telephone number () _____

Form **W-3 Transmittal of Wage and Tax Statements 1997** Department of the Treasury
Internal Revenue Service

The following forms W-2 and W-3 illustrate optional combined reporting for John R. McNamara.

Form W-2

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 55-5678910			1 Wages, tips, other compensation 60500.00		2 Federal income tax withheld 12100.00	
c Employer's name, address, and ZIP code CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201			3 Social security wages 30250.00		4 Social security tax withheld 1875.50	
			5 Medicare wages and tips 60500.00		6 Medicare tax withheld 877.24	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 023-45-6789			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) JOHN R McNAMARA 800 CLARK RD SEVERN, MD 21144			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax
.....

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service

Wage and Tax

W-2 Statement

1997

Copy A For Social Security Administration

For Paperwork Reduction Act Notice,

see separate instructions.

Form W-3 for Combined Reporting

a Control number		For Official Use Only OMB No. 1545-0008				
b	Kind of	941 <input checked="" type="checkbox"/>	Military	943 <input type="checkbox"/>	1 Wages, tips, other compensation 60500.00	2 Federal income tax withheld 12100.00
	Payer	CT-1 <input type="checkbox"/>	Hshld.	Medicare govt. emp. <input type="checkbox"/>	3 Social security wages 30250.00	4 Social security tax withheld 1875.50
c Total number of statements 1		d Establishment number		5 Medicare wages and tips 60500.00	6 Medicare tax withheld 877.24	
e Employer's identification number 55-5678910				7 Social security tips	8 Allocated tips	
f Employer's name CABOT COVE SCHOOLS 123 EDUCATION WAY BALTIMORE, MD 21201				9 Advance EIC payments	10 Dependent care benefits	
				11 Nonqualified plans	12 Deferred Compensation	
				13		
				14		
g Employer's address and ZIP code						
h Other EIN used this year				15 Income tax withheld by third-party payer		
i Employer's state I.D. No.						

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature	Title	Date
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Telephone number ()

Form **W-3 Transmittal of Wage and Tax Statements 1997**

Department of the Treasury
Internal Revenue Service

EXHIBITS: PAYROLL REGISTER DATA TABLES

Introduction

The following exhibits are data tables of information from Cabot Cove's payroll register. This information provides the base data for the case scenario. The Cabot Cove School District employs individuals who earn:

- o Wages and tips subject to the 6.2 percent Social Security tax and 1.45 percent Medicare tax (Full-FICA employees);
- o Wages subject to only the 1.45 percent Medicare tax (MQGE employees); and
- o Wages exempt from the 6.2 percent Social Security tax and 1.45 percent Medicare tax (FICA-exempt employees).

Cabot Cove's EIN is 55-5678910. The information in Exhibit 1 below contains summary employee information from Cabot Cove's payroll register. In addition, Exhibit 2 (pages 93 through 96) illustrates wage and tax data for Cabot Cove on a quarterly basis and Exhibit 3 (page 97) summarizes Cabot Cove's payroll on an annual basis.

Exhibit 1 Summary Employee Information Cabot Cove School District

<u>Name (first, middle, last)</u>	<u>Name as shown on Social Security Card and Cabot Cove Payroll Register</u>	<u>SSN</u>	<u>Employment Type</u>
Elizabeth Lee Strosnider	Elizabeth L. Strosnider	699-01-0101	FICA
Diego Garcia-y-Vega	Diego Garcia y Vega	234-56-7890	FICA
Alfredo Giuseppe Richardo Marano	Alfredo G. R. Marano	345-67-8901	MQGE
Tae-Jin Kim	Tae-Jin Kim	567-89-0123	FICA
Jose Schaeffer	Jose Schaeffer	456-78-9012	FICA
Lois Germaine Sheppard	Lois G. Sheppard	678-90-1234	FICA
John R. McNamara ¹	John R. McNamara	023-45-6789	MQGE/FICA
Mary V. Smith	Mary V. Smith	701-23-4567	FICA-Exempt
Thomas J. Mason ²	Thomas J. Mason	666-78-9012	FICA
Samuel L. Johnson ³	Samuel L. Johnson	543-21-0987	FICA/Retired
Nicole Craig	Nicole Craig	719-54-3210	FICA/Retired

1. From January 1 through June 30, 1997, John R. McNamara earned MQGE wages subject to only Medicare tax. Effective July 1, 1997, Mr. McNamara was subject to full-FICA coverage.

2. Thomas J. Mason is 45 years old. He elected to be covered by GTLI. His insurance coverage is \$150,000.

3. Samuel Johnson is a retired employee who elected to be covered by GTLI after retirement. His insurance coverage is \$125,000.

EXHIBIT 2-1

**FIRST QUARTER EMPLOYEE PAYROLL DATA
CABOT COVE SCHOOL DISTRICT PAYROLL REGISTER**

Employee's Name and SSN	Employment Type/Status	Regular Wages	Un- allocated Tips	Misc. Wages	Taxable Misc. Wages	FICA Misc. Wages	Total Taxable Wages	Fed. Income Tax Withheld	Social Security		Medicare	
									Wages & Tips	Tax Withheld	Wages & Tips	Tax Withheld
Elizabeth L. Strosnider 699-01-0101	FICA Active	11,307.25					11,307.25	2,261.45	11,307.25	701.05	11,307.25	163.96
Diego Garcia y Vega 234-56-7890	FICA Active	7,878.75	1,008.75				8,887.50	1,777.50	8,887.50	551.03	8,887.50	128.87
Alfredo G. R. Marano 345-67-8901	MQGE Active	13,500.00					13,500.00	2,700.00			13,500.00	195.75
Tae-Jin Kim 567-89-0123	FICA Active	34,000.00					34,000.00	6,800.00	34,000.00	2,108.00	34,000.00	493.00
Jose Schaeffer 456-78-9012	FICA Active	9,709.80					9,709.80	1,941.96	9,709.80	602.01	9,709.80	140.79
Lois G. Sheppard 678-90-1234	FICA Active	6,865.08					6,865.08	1,373.02	6,865.08	425.63	6,865.08	99.54
John R. McNamara 023-45-6789	MQGE Active	15,125.00					15,125.00	3,025.00			15,125.00	219.31
Mary V. Smith 701-23-4567	FICA-Exempt Active	14,000.00					14,000.00	2,800.00				
Thomas J. Mason 666-78-9012	FICA Active	12,500.00					12,500.00	2,500.00	12,500.00	775.00	12,500.00	181.25
Samuel L. Johnson 543-21-0987	FICA Retired											
Nicole Craig 719-54-3210	FICA Active	15,000.00					15,000.00	3,000.00	15,000.00	930.00	15,000.00	217.50
Total	MQGE	28,625.00	0.00	0.00	0.00	0.00	28,625.00	5,725.00	0.00	0.00	28,625.00	415.06
	FICA-Exempt	14,000.00	0.00	0.00	0.00	0.00	14,000.00	2,800.00	0.00	0.00	0.00	0.00
	FICA	97,260.88	1,008.75	0.00	0.00	0.00	98,269.63	19,653.93	98,269.63	6,092.72	98,269.63	1,424.91
First Quarter Total		139,885.88	1,008.75	0.00	0.00	0.00	140,894.63	28,178.93	98,269.63	6,092.72	126,894.63	1,839.97

EXHIBIT 2-2

**SECOND QUARTER EMPLOYEE PAYROLL DATA
CABOT COVE SCHOOL DISTRICT PAYROLL REGISTER**

Employee's Name and SSN	Employment Type/Status	Regular Wages	Un- allocated Tips	Misc. Wages	Taxable Misc. Wages	FICA Misc. Wages	Total Taxable Wages	Fed. Income Tax Withheld	Social Security		Medicare	
									Wages & Tips	Tax Withheld	Wages & Tips	Tax Withheld
Elizabeth L. Strosnider 699-01-0101	FICA Active	11,307.25					11,307.25	2,261.45	11,307.25	701.05	11,307.25	163.96
Diego Garcia y Vega 234-56-7890	FICA Active	7,878.75	1,008.75				8,887.50	1,777.50	8,887.50	551.03	8,887.50	128.87
Alfredo G. R. Marano 345-67-8901	MQGE Active	13,500.00					13,500.00	2,700.00			13,500.00	195.75
Tae-Jin Kim 567-89-0123	FICA Active	34,000.00					34,000.00	6,800.00	31,400.00	1,946.80	34,000.00	493.00
Jose Schaeffer 456-78-9012	FICA Active-SK	6,473.20		2,666.67 SK PAY	1,600.00 *	1,600.00 *	8,073.20	1,614.64	8,073.20	500.54	8,073.20	117.06
Lois G. Sheppard 678-90-1234	FICA Active	6,865.08					6,865.08	1,373.02	6,865.08	425.63	6,865.08	99.54
John R. McNamara 023-45-6789	MQGE Active	15,125.00					15,125.00	3,025.00			15,125.00	219.31
Mary V. Smith 701-23-4567	FICA-Exempt Active	14,000.00					14,000.00	2,800.00				
Thomas J. Mason 666-78-9012	FICA Active	12,500.00					12,500.00	2,500.00	12,500.00	775.00	12,500.00	181.25
Samuel L. Johnson 543-21-0987	FICA Retired											
Nicole Craig 719-54-3210	FICA Active	15,000.00				50,600.00	15,000.00	3,000.00	50,400.00	3,124.80	65,600.00	951.20
Total	MQGE	28,625.00	0.00	0.00	0.00	0.00	28,625.00	5,725.00	0.00	0.00	28,625.00	415.06
	FICA-Exempt	14,000.00	0.00	0.00	0.00	0.00	14,000.00	2,800.00	0.00	0.00	0.00	0.00
	FICA	94,024.28	1,008.75	2,666.67	1,600.00	52,200.00	96,633.03	19,326.61	129,433.03	8,024.85	147,233.03	2,134.88
Second Quarter Total		136,649.28	1,008.75	2,666.67	1,600.00	52,200.00	139,258.03	27,851.61	129,433.03	8,024.85	175,858.03	2,549.94

* Employer's contribution rate to the sick pay plan for Jose Schaeffer is 60 percent. Cabot Cove assumed responsibility for reporting the sick pay wages.

Benefit payments Mr. Schaeffer received for the second quarter is \$ 2,666.67.

Taxable portion of the sick payment : \$ 2,666.67 X .6 = \$ 1,600.00

Cabot Cove adjusted on line 9 of their 941 Form \$ 122.40 of employee taxes not withheld on sick pay. (\$ 1600.00 X .0765 = \$ 122.40)

EXHIBIT 2-3

**THIRD QUARTER EMPLOYEE PAYROLL DATA
CABOT COVE SCHOOL DISTRICT PAYROLL REGISTER**

Employee's Name and SSN	Employment Type/Status	Regular Wages	Un- allocated Tips	Misc. Wages	Taxable Misc. Wages	FICA Misc. Wages	Total Taxable Wages	Fed. Income Tax Withheld	Social Security		Medicare	
									Wages & Tips	Tax Withheld	Wages & Tips	Tax Withheld
Elizabeth L. Strosnider 699-01-0101	FICA Active	11,307.25					11,307.25	2,261.45	11,307.25	701.05	11,307.25	163.96
Diego Garcia y Vega 234-56-7890	FICA Active	7,878.75	1,008.75				8,887.50	1,777.50	8,887.50	551.03	8,887.50	128.87
Alfredo G. R. Marano 345-67-8901	MQGE Active	13,500.00					13,500.00	2,700.00			13,500.00	195.75
Tae-Jin Kim 567-89-0123	FICA Active	34,000.00					34,000.00	6,800.00	0.00	0.00	34,000.00	493.00
Jose Schaeffer 456-78-9012	FICA Active-SK			8,000.00 SK PAY	4,800.00 *	4,800.00 *	4,800.00	960.00	4,800.00	297.60	4,800.00	69.60
Lois G. Sheppard 678-90-1234	FICA Active	6,865.08					6,865.08	1,373.02	6,865.08	425.63	6,865.08	99.54
John R. McNamara 023-45-6789	FICA Active	15,125.00					15,125.00	3,025.00	15,125.00	937.75	15,125.00	219.31
Mary V. Smith 701-23-4567	FICA-Exempt Active	14,000.00					14,000.00	2,800.00				
Thomas J. Mason 666-78-9012	FICA Active	12,500.00					12,500.00	2,500.00	12,500.00	775.00	12,500.00	181.25
Samuel L. Johnson 543-21-0987	FICA Retired											
Nicole Craig 719-54-3210	FICA Retired				4,500.00		4,500.00	900.00				
Total	MQGE	13,500.00	0.00	0.00	0.00	0.00	13,500.00	2,700.00	0.00	0.00	13,500.00	195.75
	FICA-Exempt	14,000.00	0.00	0.00	0.00	0.00	14,000.00	2,800.00	0.00	0.00	0.00	0.00
	FICA	87,676.08	1,008.75	8,000.00	9,300.00	4,800.00	97,984.83	19,596.97	59,484.83	3,688.06	93,484.83	1,355.53
Third Quarter Total		115,176.08	1,008.75	8,000.00	9,300.00	4,800.00	125,484.83	25,096.97	59,484.83	3,688.06	106,984.83	1,551.28

* Employer's contribution rate to the sick pay plan for Jose Schaeffer is 60 percent. Cabot Cove is responsible for reporting the sick pay wages.

Benefit payments Mr. Schaeffer received for the Third Quarter is \$ 8,000.00.

Taxable portion of the sick payment : \$ 8,000.00 X .6 = \$ 4,800.00.

Cabot Cove adjusted on line 9 of their 941 Form \$ 367.20 of employee taxes not withheld on sick pay. (\$ 4800.00 X .0765 = \$ 367.20)

EXHIBIT 2-4

**FOURTH QUARTER EMPLOYEE PAYROLL DATA
CABOT COVE SCHOOL DISTRICT PAYROLL REGISTER**

Employee's Name and SSN	Employment Type/Status	Regular Wages	Un- allocated Tips	Misc. Wages	Taxable Misc. Wages	FICA Misc. Wages	Total Taxable Wages	Fed. Income Tax Withheld	Social Security		Medicare	
									Wages & Tips	Tax Withheld	Wages & Tips	Tax Withheld
Elizabeth L. Strosnider 699-01-0101	FICA Active	11,307.25					11,307.25	2,261.45	11,307.25	701.05	11,307.25	163.96
Diego Garcia y Vega 234-56-7890	FICA Active	7,878.75	1,008.75	7.00			8,887.50	1,777.50	8,887.50	551.03	8,887.50	128.87
Alfredo G. R. Marano 345-67-8901	MQGE Active	13,500.00					13,500.00	2,700.00	0.00	0.00	13,500.00	195.75
Tae-Jin Kim 567-89-0123	FICA Active	34,000.00					34,000.00	6,800.00	0.00	0.00	34,000.00	493.00
Jose Schaeffer 456-78-9012	FICA Active-SK			8,000.00 SK PAY-P1	4,800.00 *	3,200.00 **	4,800.00	960.00	3,200.00	198.40	3,200.00	46.40
Lois G. Sheppard 678-90-1234	FICA Active-SK	4,576.76		2,000.00 SK PAY-P2			4,576.76	915.35	4,576.76	283.76	4,576.76	66.36
John R. McNamara 023-45-6789	FICA Active	15,125.00					15,125.00	3,025.00	15,125.00	937.75	15,125.00	219.31
Mary V. Smith 701-23-4567	FICA-Exempt Active	14,000.00					14,000.00	2,800.00				
Thomas J. Mason 666-78-9012	FICA Active	12,500.00		150.00 LIFE INS	150.00	150.00	12,650.00	2,500.00	12,650.00	784.30	12,650.00	183.43
Samuel L. Johnson 543-21-0987	FICA Retired			675.00 LIFE INS	675.00	675.00	675.00		675.00	0.00	675.00	0.00
Nicole Craig 719-54-3210	FICA Retired				4,500.00		4,500.00	900.00				
Total	MQGE	13,500.00	0.00	0.00	0.00	0.00	13,500.00	2,700.00	0.00	0.00	13,500.00	195.75
	FICA-Exempt	14,000.00	0.00	0.00	0.00	0.00	14,000.00	2,800.00	0.00	0.00	0.00	0.00
	FICA	85,387.76	1,008.75	10,832.00	10,125.00	4,025.00	96,521.51	19,139.30	56,421.51	3,456.28	90,421.51	1,301.32
Fourth Quarter Total		112,887.76	1,008.75	10,832.00	10,125.00	4,025.00	124,021.51	24,639.30	56,421.51	3,456.28	103,921.51	1,497.07

SICK PAY-P1: Employer's contribution rate to the sick pay plan for Jose Schaeffer is 60 percent. Cabot Cove is responsible for reporting sick pay wages and the employer's portion of FICA.

Benefit payments Mr. Schaeffer received for the Fourth Quarter is \$ 8,000.00.

* Taxable portion of the sick payment : \$ 8,000.00 X .6 = \$ 4,800.00.

** FICA taxable portion of the sick payment : { \$ 8,000.00 - (last month sick payment [\$ 2,666.67]) } X .6 = 3,200.00

Cabot Cove adjusted on line 9 of their 941 Form \$ 244.80 of employee taxes not withheld on sick pay. (\$ 3200.00 X .0765 = \$ 244.80)

SICK PAY-P2: Employer paid 100 percent of the premiums on the policy for Ms. Sheppard. ACME assumed responsibility for paying Cabot Cove's FICA taxes and reporting the sick pay wages.

NOTE: Group-term life insurance is subject to FICA tax withholding only.

EXHIBIT 3

**PAYROLL REGISTER ANNUAL SUMMARY
CABOT COVE SCHOOL DISTRICT PAYROLL REGISTER**

Employee's Name and SSN	Employment Type/Status	Regular Wages	Un- allocated Tips	Misc. Wages	Taxable Misc. Wages	FICA Misc. Wages	Total Taxable Wages	Fed. Income Tax Withheld	Social Security		Medicare	
									Wages & Tips	Tax Withheld	Wages & Tips	Tax Withheld
Elizabeth L. Strosnider 699-01-0101	FICA Active	45,229.00	0.00	0.00	0.00	0.00	45,229.00	9,045.80	45,229.00	2,804.20	45,229.00	655.82
Diego Garcia y Vega 234-56-7890	FICA Active	31,515.00	4,035.00	0.00	0.00	0.00	35,550.00	7,110.00	35,550.00	2,204.10	35,550.00	515.48
Alfredo G. R. Marano 345-67-8901	MQGE Active	54,000.00	0.00	0.00	0.00	0.00	54,000.00	10,800.00	0.00	0.00	54,000.00	783.00
Tae-Jin Kim 567-89-0123	FICA Active	136,000.00	0.00	0.00	0.00	0.00	136,000.00	27,200.00	65,400.00	4,054.80	136,000.00	1,972.00
Jose Schaeffer 456-78-9012	FICA Active-SK	16,183.00	0.00	18,666.67	11,200.00	9,600.00	27,383.00	5,476.60	25,783.00	1,598.55	25,783.00	373.85
Lois G. Sheppard 678-90-1234	FICA Active-WC	25,172.00	0.00	2,000.00	0.00	0.00	25,172.00	5,034.40	25,172.00	1,560.66	25,172.00	364.99
John R. McNamara 023-45-6789	MQGE/FICA Active	60,500.00	0.00	0.00	0.00	0.00	60,500.00	12,100.00	30,250.00	1,875.50	60,500.00	877.25
Mary V. Smith 701-23-4567	FICA-Exempt Active	56,000.00	0.00	0.00	0.00	0.00	56,000.00	11,200.00	0.00	0.00	0.00	0.00
Thomas J. Mason 666-78-9012	FICA Active	50,000.00	0.00	150.00	150.00	150.00	50,150.00	10,000.00	50,150.00	3,109.30	50,150.00	727.18
Samuel L. Johnson 543-21-0987	FICA Retired	0.00	0.00	675.00	675.00	675.00	675.00	0.00	675.00	0.00	675.00	0.00
Nicole Craig 719-54-3210	FICA Retired	30,000.00	0.00	0.00	9,000.00	50,600.00	39,000.00	7,800.00	65,400.00	4,054.80	80,600.00	1,168.70
Total	MQGE	54,000.00	0.00	0.00	0.00	0.00	54,000.00	10,800.00	0.00	0.00	54,000.00	783.00
	MQGE/FICA	60,500.00	0.00	0.00	0.00	0.00	60,500.00	12,100.00	30,250.00	1,875.50	60,500.00	877.25
	FICA-Exempt	56,000.00	0.00	0.00	0.00	0.00	56,000.00	11,200.00	0.00	0.00	0.00	0.00
	FICA	334,099.00	4,035.00	21,491.67	21,025.00	61,025.00	359,159.00	71,666.80	313,359.00	19,386.41	399,159.00	5,778.02
		450,599.00	4,035.00	21,491.67	21,025.00	61,025.00	475,659.00	94,966.80	343,609.00	21,261.91	459,659.00	6,655.27
Annual Grand Total		504,599.00	4,035.00	21,491.67	21,025.00	61,025.00	529,659.00	105,766.80	343,609.00	21,261.91	513,659.00	7,438.27

Cabot Cove adjusted on line 9 of their 941 Form \$ 734.40 of employee taxes not withheld on sick pay. (\$ 9600.00 X .0765 = \$ 734.40)

"AGENT" REPORTING

Introduction

This section illustrates general guidelines for filing paper Forms W-2, W-3, and 941 by "agents." An entity may receive approval to be designated an "agent" by filing IRS Form 2678, Employer Appointment of "Agent" with the IRS. An "Agent" may file certain tax forms (e.g., Forms 941 and Forms W-2/W-3) using the "agent's" EIN in lieu of multiple filings under separate employer EINs. SSA and IRS prescribed reporting procedures for filing Forms 941 and W-2/W-3 by "agents." Please refer to IRS Revenue Procedure 70-6, 1970-1, C.B. 420 for complete filing instructions for "agents."

Forms W-2

Generally, an "agent" that has an approved Form 2678 should enter its "Agent" name and address as the employer in box c of the Form W-2 (illustrated below) and file one W-2 for each employee.

[Name of "Agent"]
[Address of "Agent"]

However, if the "agent" (1) is acting as "agent" for two or more employers or is an employer and is acting as an "agent" for another employer and (2) pays Social Security wages which exceed the taxable Social Security wage base for the reporting year for an employee, then the "agent" must file separate Forms W-2 reflecting the wages paid by each employer to that employee. In these instances, when conditions (1) and (2) above exist, the "agent" should enter the following in box c of each W-2 for that employee:

[Name of "Agent"]
"Agent for" [Name of Employer]
[Address of "Agent"]

Note: Each Form W-2 should reflect the EIN of the "Agent" in box b.

Form W-3

The "agent" should submit all employer Forms W-2 (including the "Agent's" Forms W-2, if the "Agent" is also an employer) under one W-3 transmittal. Form W-3, box e must contain the "Agent's" EIN; box f must contain the "Agent's" name and box g must contain the "Agent's" address. If the Forms W-2 in the submittal pertain only to one employer (aside from any Forms W-2 filed by the "Agent", if the "Agent" is also an employer), enter that employer's EIN in box h; otherwise do not complete box h.

Forms 941

The name and EIN of the "Agent" (as registered with the IRS) should be reported on Forms 941. Each quarterly Form 941 should represent the combined wage and tax data for all employers (including the "Agent's" wage and tax data if the "Agent" is also an employer) for which the "Agent" is assuming a reporting responsibility.

Case Scenario

The following case scenario illustrates how the Maryland Education Group, "Agent" for Millbrooke and Cedarville Schools, reports the schools' wage and tax deposit data on the Forms 941, W-3, and W-2. In the examples which follow, Millbrooke employed 3 individuals, Cedarville employed 2 individuals, and the Maryland Education Group employed 2 individuals in TY 1997. Ms. Gina Jones worked for both Millbrooke and Cedarville in TY 1997.

The Forms 941 (annual mock-up), W-3, and W-2 which follow are correct examples because they meet the following criteria for "Agent" reporting.

Form 941 Annual Mock-Up versus Form W-3

- o Only the "agent's" EIN (i.e., The Maryland Education Group's EIN 22-2345678) and address appear on both the Form 941 annual mock-up and Form W-3.
- o The following data from the Form W-3 balance to the Form 941 annual mock-up:
 - a. Box 1, Wages, tips, and other compensation and Box 2, Federal income tax withheld;
 - b. Box 3, Social Security wages and Box 4, Social Security tax withheld; and
 - c. Box 5, Medicare wages and tips and Box 6, Medicare tax withheld.

Form W-3 versus Forms W-2

- o The Maryland Education Group reported their employee's Forms W-2 together with Forms W-2 for Millbrooke and Cedarville employees under one Form W-3 submission.
- o The Maryland Education Group left Form W-3, Box h (Other EIN used this year) blank because they were reporting as an "Agent" for more than one employer.
- o The Form W-3, Boxes f and g properly contain only the Maryland Education Group's name and address respectively.

- o Regarding the Forms W-2 for Millbrooke and Cedarville employees:
 - a. Box b contains The Maryland Education Group's EIN (i.e., 22-2345678);
 - b. Box c contains only the Maryland Education Group's address except in Gina Jones' case. Gina Jones' W-2 forms identify the Maryland Education Group on the first line followed by the words "Agent for" (Millbrooke and Cedarville) on the second line, and the Maryland Education Group's address on the next lines.
 - c. Gina Jones is reported on two separate Forms W-2 in the same W-3 submission (i.e., on one Form W-2 for Millbrooke employment and on another Form W-2 for Cedarville employment). This is because she was paid by more than one employer and her total wages exceeded the Social Security wage base for 1997.
- o The sum of the following boxes on the Forms W-2 balance to corresponding boxes on the Form W-3:
 - a. Box 1, Wages, tips, and other compensation and Box 2, Federal income tax withheld;
 - b. Box 3, Social Security wages and Box 4, Social Security tax withheld; and
 - c. Box 5, Medicare wages and tips and Box 6, Medicare tax withheld.

Note: For ease of illustration, the facsimile Form 941 which follows only portrays an "annual mock-up" and is intended to show that the Form 941 should contain the "agent's" name, EIN, and address when reporting on behalf of other employers in an "Agent" capacity. Forms 941 must be filed quarterly - not annually.

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a Control number		For Official Use Only OMB No. 1545-0008			
b		1 Wages, tips, other compensation		2 Federal income tax withheld	
Kind	941 <input checked="checked" type="checkbox"/>	Military	943 <input type="checkbox"/>	235000.00	47000.00
of Payer	CT-1 <input type="checkbox"/>	Hshld.	Medicare govt. emp. <input type="checkbox"/>	3 Social security wages 232700.00	4 Social security tax withheld 14570.00
c Total number of statements 7		d Establishment number		5 Medicare wages and tips 235000.00	6 Medicare tax withheld 3407.50
e Employer's identification number 22-2354678				7 Social security tips	8 Allocated tips
f Employer's name THE MARYLAND EDUCATION GROUP		9 Advance EIC payments		10 Dependent care benefits	
.....		11 Nonqualified plans		12 Deferred Compensation	
456 AGENTS DRIVE OWINGS MILLS, MD 21217		13			
g Employer's address and ZIP code		14			
h Other EIN used this year		15 Income tax withheld by third-party payer			
i Employer's state I.D. No.					

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature	Title	Date
<hr/>		
Telephone number ()	Department of the Treasury	
Form W-3 Transmittal of Wage and Tax Statements 1997	Internal Revenue Service	

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 25000.00		2 Federal income tax withheld 5000.00	
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP Agent for MILLBROOKE SCHOOL 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 25000.00		4 Social security tax withheld 1550.00	
			5 Medicare wages and tips 25000.00		6 Medicare tax withheld 362.50	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 246-81-0121			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) GINA JONES			11 Nonqualified plans		12 Benefits included in box 1	
765 CATON ST. BALTIMORE, MD 21202			13 See instrs for Box 13		14 Other	
			15 Statutory Deceased Pension Legal Hshld. Subtotal Deferred employee plan rep emp. compensation <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

Cat. No. 10134D

Department of the Treasury-Internal Revenue Service

Wage and Tax

W-2 Statement

1997

For Paperwork Reduction Act Notice,
see separate instructions.

Copy A For Social Security Administration

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 65000.00		2 Federal income tax withheld 13000.00	
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 65000.00		4 Social security tax withheld 4030.00	
			5 Medicare wages and tips 65000.00		6 Medicare tax withheld 942.50	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 277-18-1210			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) BRIAN HARDY			11 Nonqualified plans		12 Benefits included in box 1	
966 DEEJAY DR. BALTIMORE, MD 21235			13 See instrs for Box 13		14 Other	
			15 Statutory Deceased Pension Legal Hshld. Subtotal Deferred employee plan rep emp. Compensation <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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Department of the Treasury-Internal Revenue Service

Wage and Tax

W-2 Statement

1997

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Copy A For Social Security Administration

a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 27000.00		2 Federal income tax withheld 5400.00	
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 27000.00		4 Social security tax withheld 1674.00	
			5 Medicare wages and tips 27000.00		6 Medicare tax withheld 391.50	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 218-36-5472			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) RICHARD BLINKO 157 VETS ST. BALTIMORE, MD 21229			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 42000.00		2 Federal income tax withheld 8400.00	
c Employer's name, address, and ZIP code THE MARYLANAND EDUCATION GROUP Agent for CEDARVILLE SCHOOL 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 42000.00		4 Social security tax withheld 2604.00	
			5 Medicare wages and tips 42000.00		6 Medicare tax withheld 609.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 246-81-0121			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) GINA JONES 765 CATON ST. BALTIMORE, MD 21202			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 24000.00		2 Federal income tax withheld 4800.00	
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 24000.00		4 Social security tax withheld 1488.00	
			5 Medicare wages and tips 24000.00		6 Medicare tax withheld 348.00	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 654-78-9101			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) DEBORAH KING 12 BROADWAY AVE. BALTIMORE, MD 21229			11 Nonqualified plans		12 Benefits included in Box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008			
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 19000.00		2 Federal income tax withheld 3800.00	
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 19000.00		4 Social security tax withheld 1178.00	
			5 Medicare wages and tips 19000.00		6 Medicare tax withheld 275.50	
			7 Social security tips		8 Allocated tips	
d Employee's social security number 323-82-7224			9 Advance EIC payment		10 Dependent care benefits	
e Employee's name (first, middle initial, last) BILL NEWSOME 2105 MISSION WAY BALTIMORE, MD 21202			11 Nonqualified plans		12 Benefits included in box 1	
			13 See instrs for Box 13		14 Other	
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>
f Employee's address and ZIP code						
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax

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a Control number	22222	Void <input type="checkbox"/>	For Official Use Only OMB No. 1545-0008				
b Employer's identification number 22-2354678			1 Wages, tips, other compensation 33000.00		2 Federal income tax withheld 6600.00		
c Employer's name, address, and ZIP code THE MARYLAND EDUCATION GROUP 456 AGENTS DRIVE OWINGS MILLS, MD 21117			3 Social security wages 33000.00		4 Social security tax withheld 2046.00		
			5 Medicare wages and tips 33000.00		6 Medicare tax withheld 478.50		
			7 Social security tips		8 Allocated tips		
d Employee's social security number 356-39-5462			9 Advance EIC payment		10 Dependent care benefits		
e Employee's name (first, middle initial, last) KEVIN SMITH 19 BANKIT CT. WOODLAWN, MD 21244			11 Nonqualified plans		12 Benefits included in box 1		
			13 See instrs for Box 13		14 Other		
			15 Statutory employee <input type="checkbox"/>		Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>
f Employee's address and ZIP code							
16 State	Employer's state ID No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax	

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APPENDIX A: TELEPHONE NUMBERS FOR THE SOCIAL SECURITY ADMINISTRATION'S REGIONAL MAGNETIC MEDIA SPECIALISTS

NOTE: THESE ARE NOT TOLL-FREE NUMBERS

Social Security personnel at these telephone numbers can help callers with questions about how to submit **W-2s on magnetic media**. Refer to Internal Revenue Service (IRS) Publication 393, "Federal Employment Tax Forms" for instructions on filing **paper W-2s/W-3s**. Employers, payroll services or an "agent" filing W-2s for employers may telephone the IRS Martinsburg Computing Center call site at (304) 263-8700 with employment tax questions.

<u>Calls from:</u>	<u>Telephone:</u>	<u>Calls from:</u>	<u>Telephone:</u>
Alabama	(334) 223-7020 (Montgomery)*	Nebraska	(816) 426-2095 (Kansas City)
Alaska	(206) 615-2125 (Seattle)	Nevada	(415) 744-4559 (San Francisco)
American Samoa	(415) 744-4559 (San Francisco)	New Hampshire	(617) 565-2895 (Boston)
Arizona	(415) 744-4559 (San Francisco)	New Jersey	(212) 264-5643 (New York)
Arkansas	(501) 324-5466 (Little Rock)	New Mexico	(505) 262-6048 (Albuquerque)
California	(415) 744-4559 (San Francisco)	New York	(212) 264-5643 (New York)
Colorado	(303) 844-2364 (Denver)	North Carolina	(919) 790-2804 (Raleigh)*
Connecticut	(617) 565-2895 (Boston)	North Dakota	(303) 844-2364 (Denver)
Delaware	(215) 597-4632 (Philadelphia)	Ohio	(312) 575-4244 (Chicago)
Dist. of Columbia . . .	(215) 597-4632 (Philadelphia)	Oklahoma	(405) 951-3007 (Oklahoma City)
Florida-North.	(850) 942-8975 ext. 3035 (Tallahassee)*	Oregon	(206) 615-2125 (Seattle)
Florida-South	(305) 672-4517 (Miami Beach)*	Pennsylvania	(215) 597-4632 (Philadelphia)
Georgia	(404) 730-3553 (Atlanta)*	Puerto Rico	(787) 766-5574 (San Juan)
Guam	(415) 744-4559 (San Francisco)	Rhode Island	(617) 565-2895 (Boston)
Hawaii	(415) 744-4559 (San Francisco)	South Carolina	(803) 629-8601 (Florence)*
Idaho	(206) 615-2125 (Seattle)	South Dakota	(303) 844-2364 (Denver)
Illinois	(312) 575-4244 (Chicago)	Tennessee	(615) 896-9430 (Murfreesboro)*
Indiana	(312) 575-4244 (Chicago)	Texas-Central/South . .	(210) 472-6433 (San Antonio)
Iowa	(816) 426-2095 (Kansas City)	Texas-Dallas County . .	(214) 767-6777 (Dallas)
Kansas	(816) 426-2095 (Kansas City)	Texas-North	(817) 978-3123 (Fort Worth)
Kentucky	(502) 875-8315 (Frankfort)*	Texas-Southeast	(713) 718-3015 (Houston)
Louisiana	(504) 389-0426 (Baton Rouge)	Texas-West	(505) 262-6048 (Albuquerque)
Maine	(617) 565-2895 (Boston)	Utah	(303) 844-2364 (Denver)
Maryland	(215) 597-4632 (Philadelphia)	Vermont	(617) 565-2895 (Boston)
Massachusetts	(617) 565-2895 (Boston)	Virgin Islands	(787) 766-5574 (San Juan)
Michigan	(312) 575-4244 (Chicago)	Virginia	(215) 597-4632 (Philadelphia)
Minnesota	(312) 575-4244 (Chicago)	Washington	(206) 615-2125 (Seattle)
Mississippi	(601) 693-4859 (Meridian)*	West Virginia	(215) 597-4632 (Philadelphia)
Missouri	(816) 426-2095 (Kansas City)	Wisconsin	(312) 575-4244 (Chicago)
Montana	(303) 844-2364 (Denver)	Wyoming	(303) 844-2364 (Denver)

* or Atlanta (404) 562-1314



APPENDIX B: IRS/SSA PUBLICATIONS

There are other IRS and SSA publications which can help employers file wage reports. Several key publications from each Agency are listed below.

IRS Publications

- o Employer's Tax Guide, Publication 15 (Circular E)
- o Employer's Supplemental Tax Guide, Publication 15-A
- o Farmer's Tax Guide, Publication 225
- o Tax Guide for Small Business, Publication 334
- o Federal Employment Tax Forms, Publication 393
- o Reporting Back Pay and Special Wage Payments to the Social Security Administration, Publication 957
- o Rules for Filing & Specifications for the Private Printing of Substitute Forms W-2 and W-3, Publication 1141
- o Specifications for Private Printing of Substitute Forms W-2c and W-3c, Publication 1223

For copies of these and other IRS publications, please contact the local IRS office listed in your telephone directory or call Toll Free 1-800-829-3676 to request this information.

SSA Publications

- o Employers Guide to Filing Timely and Accurate W-2 Wage Reports

For copies of this publication, please contact your regional SSA magnetic media specialist listed in Appendix A.

- o Software Specifications and Edits for Correcting Annual Wage Reports, Publication No. 31-031.

You can obtain copies of this SSA publication by:

Using a personal computer and modem to access either the SSA-BBS at (410) 965-1133 or the IRS-BBS at (304) 264-7070. Internet subscribers can read and print this publication directly from the Employer Information section of SSA Online @WWW.SSA.GOV.

Forward written requests to:

Social Security Administration
Office of Financial Policy and Operations
ATTN: AWR Software Standards
P.O. Box 17195
Baltimore, MD 21297-1195